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TOWARDS A POSTMODERN ONTOLOGY AND EPISTEMOLOGY OF ACCOUNTING INFORMATION

1. Introduction

During the last half of the century, but especially in the past twenty years, several social theorists have seriously questioned the fundamental presuppositions underlying the so-called “modern” society. J. Derrida, M. Foucault, J. Baudrillard, F. Lyotard and others have claimed that the modernistic thinking rooted in the Enlightenment project – the cradle of the modern society – is obsolete and should be replaced with another way of seeing the world, postmodernity.

The philosophy of language has cast the most serious doubts on modernity: postmodern authors reject the idea that language is a transparent medium used for reflecting reality. This led to theories of a “crisis in representation”, an era dominated by “simulacrum” and “hyperreality”.

As it is often said in elementary text books, accounting is the *language of business*; accounting is by definition a communicative action – a service that is intended to present a *true and fair view* on the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of actors in making economic decisions.

That accounting is about representing reality is easy to see, since concepts like *representation faithfulness, truth, reality* are embodied within accounting standards and conceptual frameworks of accounting. Consider for instance the terms used by the International Accounting Standards Board ¹ when talking about accounting information and financial statements. (The IASB is an international standardization body which has the mission of prescribing how financial statements should be prepared, how transactions and events should be accounted for, in other words, how reality should be represented.)

Information has the quality of reliability when (...) can be depended upon by users to **represent faithfully** that which it either **purports to represent** or **could reasonably be expected to represent**. (...) If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they [be] accounted for and presented in accordance with **their substance** and **economic reality** and not merely their legal form" (IASC 2000, Framework for preparation of financial statements par.31 and 35, emphasis added).

"Financial statements are a structured financial **representation** of the financial position of and the transactions undertaken by an enterprise."
(IASC 2000, IAS 1 Presentation of financial statements par.5, emphasis added).

In light of postmodernist claims, it is only natural to wonder whether accounting is nowadays really going through a crisis of representation. What stands for truth – true and fair view, representation faithfulness – anymore from a postmodern perspective? Should we draw on postmodern theories and reconsider our way of understanding accounting?

To address such general issues our analysis will focus on the ontological and epistemological presuppositions underlying accounting standards and on how such presuppositions can hold to a postmodern critique. This end will be pursued by employing a semiotic perspective on accounting, namely accounting information will be depicted as text using Saussure's semiotic concepts of signifiers (word written or spoken), signifieds (the image recalled by each signifier in our mind), signs (signified-signifier pairs) and referents (objects designated by signs). This approach will facilitate a discussion about the ontological assumptions of accounting by concentrating on referents, and explore the epistemological presuppositions by focusing on the relation between signs (signifiers-signifieds) and referents.

Using this general background as a first step, the article will draw on Frege, Strawson and Searle' theoretic in order to discuss the ontology of accounting information with an emphasis on the ontological status of value. And then, Derrida's concepts of "metaphysics of presence" and "différance" will be employed for a postmodern critique.

In the end, the article will discuss the epistemological problem in accounting, trying to establish whether the present conception of truth should be abandoned taking into account the postmodern claims.

2. Framing the problem

In order to see whether accounting is going through a “crisis of representation”, we shall focus on what is represented by accounting information and try to describe, from a philosophy of language perspective, how accounting signs relate to the world and how the credibility of accounting information is assessed by users of financial statements.

In doing so, a semiotic perspective on accounting will be deployed, namely accounting information will be depicted as text using Saussure’s semiotic concepts of signifiers, signifieds, signs and referents.

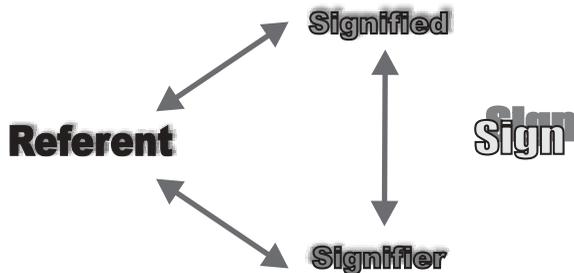


Fig.1 Saussure’s semiotic concepts

Using these concepts we can understand the classical way in which language is thought of, that is, as an upper structure to an extralinguistic reality. Actually, we can call this the *modern perspective on language* which embraces both **external realism** (the system of referents is seen as independent of the system of signs; the reference exists independently of the sign that designates it), and **correspondence theory of truth** (a sentence will be accepted as true only by means of correspondence between signs and reality).

If we analyze accounting standards from a linguistic perspective, we can easily acknowledge that this is the way accounting is understood nowadays. This modernistic approach is the “official” perspective which is put forward by various standardization bodies, used for legitimating new standards or settling various accounting controversies.

Thus financial statements are defined as “a structured financial **representation** of the financial position of (...) an enterprise” (IAS 1, par.5), in other words, there is an extra linguistic category (independent of accounting signs): the **financial position** of an enterprise (the **reference**), which is being depicted by accounting information that are comprised in financial statements (the **signs**). This idea is very well explained by FASB in its conceptual framework (CON 3², par. 6), which says that

The items that are formally incorporated in financial statements are **financial representations** (*depictions in words and numbers*) of certain resources of an entity, claims to those resources, and the effects of transactions and other events and circumstances that result in changes in those resources and claims. That is, **symbols** (*words and numbers*) in financial statements stand for cash in a bank, buildings, wages due, sales, use of labor, earthquake damage to property, and a host of other economic things and events pertaining to an entity existing and operating in what is sometimes called the “**real world**” (emphasis added).

The reliability of accounting information is judged by success in achieving a representation faithful to what the information purports to represent, namely: economic reality. In other words, standardization bodies understand truth in terms of a correspondence between what is said about facts and the facts themselves, since users of accounting information will believe what is being said in financial statements based on their ability to provide a faithful representation of economic reality. And there is a clear statement attesting the fact that *correspondence theory of truth* is the accepted theory, as FASB (CON 2³) defines representational faithfulness as “correspondence or agreement between a measure or description and the phenomenon that it purports to represent”.

Those that certify the truthfulness of accounting information are the auditors, which, after a thorough verification of the correspondence between reality and what is being reported, issue an opinion in order to support or undermine the reliability of financial statements using a very well-known expression: “in our opinion, the audited financial statements **present fairly** (or do not present fairly) the financial position and performance of the enterprise.” Hence, using Saussure’s concepts, it is easy to see that accounting is understood by all its constituents as a representation of real phenomena.

The new insight brought by Saussure to the “classical” perspective was to expose the arbitrary relationship between the sign and the referent.

In other words, opposite to the Greek philosophers' belief⁴, there is no causal relation between the signs and the objects from reality. Accordingly, meaning is not *substantial* (it is not an intrinsic property of the sign), but *differential* (meaning is understood by differentiating signs within a system of language). We understand meaning not because the sign can instantiate the reference, but because signs can be differentiated within a system of language (for example, we understand "cat", because we distinguish it from "bat" or "rat").

Thus, Saussure made way for a radical perspective adopted by poststructuralist theories: since meaning is understood by differentiating signs within a system of language, then reference is absent from the communicative act. Therefore, privileging reality to represent and define truth as the correspondence between signs and reality is an idea without content.

The only attempt to discuss the ontology and epistemology of accounting information from a postmodern perspective has come from a group of Canadian professors (Macintosh et al., 2000). Actually, Macintosh et al. have tried to discuss the *ontological status* of accounting information drawing on Baudrillard's orders-of-simulacra theoretic. They questioned not only the nature of the reality accounting figures that are supposed to represent (physical reality, socially constructed reality), but the very existence of a reality to be referred to at all. In their analysis they tried to demonstrate that accounting concepts such as income and capital no longer reflect "any objective reality but instead circulate (...) in a 'hyperreality' of self-referential models".

Although the research of Macintosh et al. (2000) has cast new and interesting lights upon the ontological problem in accounting drawing on Baudrillard's theoretic, the authors of the article did commit some fallacies when discussing the issue. The most important fallacy was not realizing that accounting information is in fact compounded of two signs – one that stands for the company's resources or sources of resources (e.g. assets: buildings, equipment, raw materials or owner's equity: capital, income) and one that stands for the value of those items (numerical signs e.g. \$100). So, they could not see that the hyperreality examples that they found were not in fact linked to the capital or income signs, but actually to the valuation of those objects.

This drawback of Macintosh et al. (2000) article has also been noticed by Mattessich (2003) who dismissed the issue by arguing that the problem of accounting valuation is methodological, not ontological. But is

valuation in accounting a methodological and not an ontological problem? After brushing up on the theories provided by the philosophy of language on this matter – we think not. At least, we think that there is much to be said about this subject before dismissing it.

Therefore, this article will develop a deeper analysis of accounting language – beyond Saussure’s general background – seeing accounting information disclosed in financial statements as propositions compound of two items:

- a **subject concept**: that claims something is affirmed (or predicated) – in this case the elements of financial statements (fixed assets, capital, income etc.); and
- a **predicate concept**: that describes the subject, the properties ascribed to the subject – in this case the values ascribed to the elements of financial statements.

This approach will facilitate a discussion on predicate expressions, that is, in what accounting is concerned, a discussion on the ontological status of value.

3. The ontological problem in accounting

The ontological problem in accounting is not a new one, as several authors have tried to understand what “economic reality” might be. But the perspectives adopted were almost all modern, and focused only on the ontological status of objects and not of their properties. In other words, no other texts engaged in a deeper analysis of accounting information, namely they did not see accounting information as propositions. Discussions concerned the ontological status of subject concepts (whether they refer to non-linguistic objects or not) and not around the ontological status of predicate concepts (that is, whether properties of objects exist).

In addition, the debates focused only on the nature of the reality that is to be represented by accounting information – physical reality, socially constructed reality – going from a limited ontology of external realism, which accepts only the existence of physical reality, to social constructivism, which makes an ontological commitment to socially-constructed objects.

Positions in favor of realism can be found in Heath (1987):

Although the accounting concept of income is a model of real-world events, income does not exist in the real world any more than a family with 1.6 children exists in the real world. Both exist only in our minds. They are intangible concepts or abstractions.

and Schuetze (2001):

I think that we should account for real things such as trucks, not abstract future economic benefits.

In these cases, the authors make an ontological commitment only to physical objects, such as “trucks”, but to other items constructed by human mind, such as “income” or “economic benefits.” These abstractions exist not “in the real world”, but “in our minds”. Some of these texts (Schuetze 1993, 2001) contain an incentive for change in accounting theory in the sense of eliminating abstractions from the accounting sphere, so that the ontological presuppositions underlying accounting standards could hold.

Other authors (Hines, 1988; Mattessich, 1991, 1995, 2003; Shapiro, 1997, 1998; Archer and Alexander, 2003; Mouck, 2004) think that socially constructed objects should not be excluded from reality just because they are dependent on human mind. In support of this idea, Mattessich (1991, 1995, 2003) upholds an original ontological model – “the onion model of reality” – inspired by ontological theories of Hartman, Campbell, and Lorenz:

This model depicts reality as a structure of four layers “depended on and inclusive of each other, like those of an onion (...):

1. *Physical-chemical reality*: consisting of fields of forces, quarks, electrons, etc., and on higher sublevels, atoms, molecules, amino acids, proteins and so on. (...)
2. *Biological reality*: it manifests itself in DNA molecules and the criteria of life, as well as in its emergent properties, as empirically evidenced in modern botany and zoology. (...)
3. *Mental reality* (of humans): it is characterized by psychological and quasi-mental phenomena, such as having preferences, intentions, pleasure or pain, etc. (...)
4. *Social reality*: it exists wherever groups of animals or humans generate social properties, which on the higher sub-levels become moral, economic, legalistic and similar properties” (emphasis added).

According to this model, socially constructed objects, such as “income”, “liabilities” or “capital” are not excluded from reality as in this ontological model “[t]he economic and legal relations of ownership and debt claims are as empirically real on [the social] level as is an atom on the physical level, or as are pain and preferences on the mental level.” Hence, both physical and social objects are real, albeit different in nature, since they belong to different layers of reality.

Shapiro (1997), Archer and Alexander (2003) and Mouck (2004) do not try to develop their own ontological model, but consider Searle’s (1995) ontological theory in order to support the reality of socially constructed objects. Searle’s (1995) theoretic starts by making an ontological commitment to physical objects (brute facts), and then, based on the concept of “intentionality” explains how social objects come into being. According to Searle (1995), people have the *ability to share beliefs or desires* – termed “*collective intentionality*” – that in certain conditions can give rise to a specific type of social facts, namely, *institutional facts*. More exactly, *institutional facts* come into being by ascribing a *status function* to a physical object (*brute fact*) by means of *collective intentionality*. This is done by an assertive utterance in the form of “X counts as Y in the context C” (where X is the brute fact and Y is the institutional fact). For example: “Bills issued by the Bureau of Engraving and Printing (X) count as money (Y) in the United States (C)”.

This model can be further developed, since an institutional fact can play the role of “X” in creating a new institutional fact. But institutional facts ultimately depend on brute facts, as there must be a physical object to start the construction of social reality. In Searle’s (1995) terms, brute facts have logical priority over institutional facts.

This rationale is used in accounting to describe how accounting concepts are socially constructed:

By virtue of collective intentionality, ownership claims, income, and other conceptual objects of accounting can, under appropriate conditions, be *institutional facts*. (Archer and Alexander, 2003)

Mouck (2004) prefers Searle’s (1995) ontological model to that advanced by Mattessich (1991, 1995, 2003) because it identifies very important characteristics of brute facts and social facts. Namely, whereas brute facts are *ontologically objective* – that is, they exist independently of human’s mind; social facts are *ontologically subjective* – meaning,

they cannot exist in the absence of human thought. Moreover, Searle's (1995) model explains that institutional facts, although *ontologically subjective* (as they require human practices to sustain their existence), they are *epistemologically objective*, meaning they have an effect that is universally agreed upon. That is because, being inter-subjectively constructed by means of collective intentionality, institutional facts become objectified; in other words, they are not dependent on a particular human being's attitude towards them.

Mattessich's "onion model of reality", as presented in Mattessich (1991), is not adequate because it fails to distinguish between the epistemologically subjective and the epistemologically objective aspects of social reality. (Mouck, 2004)

Based on Searle's (1995) model, Shapiro (1997) defines the ontological presupposition of accounting as *external realism*⁵:

External reality exists independently of the financial statements that attempt to represent it. Social phenomena are ontologically subjective but just as real as ontologically objective physical phenomena.

In doing so, Shapiro (1997) not only makes an ontological commitment to socially constructed objects, but describes reality (physical objects or socially constructed objects) as independent of the financial statements that try to represent them. In other words, accounting signs refer to a non-linguistic object.

This presupposition is attacked by Archer and Alexander (2003), who argue that socially constructed objects are not externally real. But the argument is based on a misinterpretation of Searle's theoretic on the one hand, and of Shapiro's position on the other. Here is Archer and Alexander (2003) understanding of Searle's theory:

Searle's position is that (a) under appropriate conditions a firm's profit becomes (is objectified as) an <<institutional fact>>, but also (b) this does *not* mean that profit is real, or has a realworld referent, in the *external realist* sense of existing *independently* of the collective representations which lead under appropriate conditions to its objectification. (...) Searle does not consider "institutional facts" to be "externally real."

The argument is fallacious because it states that because profit is dependent of the collective representations which led to its creation as an institutional fact, it has no “real-world referent”. But this is not exactly what Searle is advancing.

It is true that Searle defines *external reality* as a presupposition according to which the world exists independently of our representations. But in order for a representation to have an independent referent, it is not necessary for that referent to be independent of all representations. More exactly, institutional facts – although ontologically subjective – as they come into being by means of collective intentionality, become objectified, meaning they are independent of any particular attitude towards or representation of them. A particular representation of an institutional fact assumes a real-world referent, much as the representation of a physical object. As Searle (1995) put it,

Talk of money and marriages is talk of publicly accessible reality, and such phenomena are “*representation independent*” in the sense that this twenty dollar bill or this marriage between Sam and Sally exists independently of your or my representations of it. (...) “You owe me five dollars” presupposes an *independently existing reality* as much as does “Mt. Everest has snow and ice near the summit.” (emphasis added)

Accordingly, it is right for Shapiro (1997) to say, based on Searle (1995), that external reality (i.e. economic reality) is independent of the financial statements that try to represent it. It may not be independent of all representations (for example, of the FASB position on what is an asset or a liability), but being objectified by means of collective intentionality, it is independent of the accounting information that tries to represent it. And Shapiro (1997) did not claim independence from all representations, just from “the financial statements that attempt to represent it.”

Based on this misunderstanding of Searle’s theory, Archer and Alexander (2003) refute *external realism* as being a suited ontological presupposition for accounting and financial reporting, joining Hines (1988) in support for *social constructivism*. Accordingly, reality is comprised of both physical and socially constructed objects, but this reality is not external to representations but constructed by representations. Archer and Alexander (2003) draw on Putnam (1981) in order to define this ontological presupposition that they advance for financial reporting, terming it *internal realism*:

[T]he objects of accounting do not exist independently of a conceptual scheme that relates accounting concepts to each other and to their empirical referents. But this does *not* mean that such objects are not real. The objects of accounting are part of an *economic reality* that is *socially* (i.e. *intersubjectively*) constructed and objectified by virtue of *collective intentionality*.

In doing this, Archer and Alexander (2003) argue not with Shapiro (1997), but actually with Searle (1995), albeit they don't seem to realize it, as they use Searle's theoretic in order to support *internal realism*, while Searle explicitly supports *external realism* as the background premise of his theory in particular and of all speech acts in general. By "internal realism" Archer and Alexander (2003) do not say that accounting concepts have no "empirical [real] referents", but just that these objects/empirical referents are socially constructed, being dependent on collective representations. Only Macintosh et al. (2000), adopting a postmodern perspective, explicitly denies that accounting concepts have real-world referents, claiming that they "instead circulate (...) in a 'hyperreality' of self-referential models".

To sum up, the main debate concerning the ontological problem in accounting has focused only on the ontological status of objects (e.g. assets, liabilities, income etc.) that are represented by financial statements without considering a deeper analysis of accounting information. That is, there has been no interest in seeing accounting information as propositions compound of a subject concept (the objects represented in financial statements) and a predicate concept (the value of those objects). The ontological status of value appeared only accidentally in these debates, as in Mattessich (2003) – when the problem was refuted as being a methodological problem, or as in Macintosh et al. (2000) – when the authors confused recognition with valuation matters.

Given the situation, in the next paragraphs we shall focus on predicate expressions discussing the ontological presuppositions that can be adopted in accounting.

Analyzing accounting information as propositions composed of a subject concept and a predicate concept, there are three ontological positions that can be adopted:

Modern theories	Realism	Both subject and predicate expressions have an extralinguistic reference. Both objects and their properties exist.
	Nominalism	Only subject expressions have an extralinguistic reference, not predicate expressions. Only objects exist, not their properties.
Postmodern theories	The problem of reference is an idea without content. There is nothing outside of the text ⁶ .	

3.1. Modern theories of language and accounting representations⁷

a) Frege’s realist theory

One of the most influential theories in philosophy of language was advanced by Frege, who held that both subject and predicate expressions have an extralinguistic reference. But, while subject expressions refer to an *object*, predicate expressions refer to a *concept*. For example, in the sentence “Mathew is young”, there is something that stands for “is young”, as Mathew stands for “Mathew”, namely the “concept of youth”.

To return to accounting, if we consider a sentence from a set of financial statements, for example “Company X’s fixed assets are in amount of \$900,000”, the predicate expression “are in amount of \$900,000” will refer to the concept “value \$900,000”.

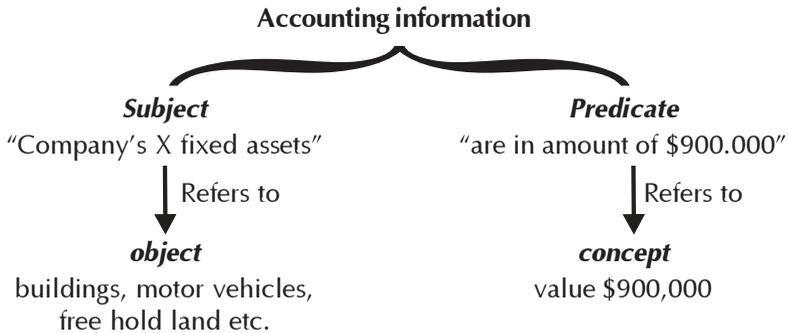


Fig. 2: Frege’s ontological model adapted from Searle (1969)

But what does this concept of “value \$900,000” represent? Because, if we intuitively accept that fixed assets refer to real world objects such as trucks and buildings, it is difficult to comprehend the reference for the predicate expression “are in amount of \$900,000”. The answer to this question is, according to Frege, that the concept “value \$900,000” designates the class of real world objects which worth \$900,000.

What Frege tried to do, Searle (1969) explains, is to justify the existence of the properties of an object by extending the rationale used for referential expressions (in German, *Eigenname*) to predicate expressions. Hence, if the purpose of a subject expression is to designate an object, the purpose of a predicate expression should be that of designating a property of the object.

Frege’s attempt to identify a nonlinguistic item – the properties of things – which predicate expressions should refer to, was, according to Searle (1969), very hard to sustain because Frege tried to force an analogy between things that share no common features. Hence, while subject expressions designate a particular reference, predicate expressions designate a very peculiar reference that can only be understood in the context of a class of real world objects that have the same property: e.g. we understand “youth” to refer to people who share this characteristic; we understand “value \$900,000” to refer to a class of objects valued at \$900,000.

The ontological position adopted in accounting can be circumscribed to this realist theory, as FASB defines representational faithfulness as “correspondence or agreement between a *measure* or *description* and the phenomenon that it purports to represent” (emphasis added). And measures and descriptions can only be advanced by means of predicate expressions.

b) The nominalist theory and the existence of universals

The controversy concerning the existence of properties is not a new one. Actually it is a very old debate which was carried around the concepts of *particulars* – things, objects, particular entities designated by signs, and *universals* – properties of things, general entities that can be ascribed to more than one object/thing/particular entity.

In this debate, realist theories that support the existence of both particulars and universals were opposed by nominalist theories which reject any ontological commitment to entities that don’t have a particular character. Hence, only particulars exist, not universals – this ontological

position being supported by explanations such as: universals are concepts, they are predicates, and what is predicated about an object cannot be an object.

In what accounting is concerned, the only explicit position in favor of a nominalist theory is taken by Mattessich (2003), which upholds that valuation in accounting is not an ontological but a methodological issue.

Frege's realist theory on the one hand, and the nominalist theory on the other, are obviously in conflict. While Frege tries to force an analogy between subject and predicate expressions, the nominalist theories insists on the differences between particulars and universals, thus on the need of giving them a different ontological status.

c) Strawson's theory and the reconciliation between realist and nominalist positions

Strawson advances a theory trying to reconcile the two opposing ontological positions. According to Searle (1969), Strawson attempts to avoid Frege's contradictions by employing less radical terms. Thus, Strawson says that both subject and predicate expressions *identify extralinguistic entities or terms*. However, while the extralinguistic entity identified by a subject expression is a particular, the one identified by a predicate expression is a universal.

In our example, the expressions "Company's X fixed assets" and "are in amount of \$900.000" will both identify extralinguistic entities: the former will identify particular objects belonging to the company (trucks, buildings), and the latter their property (having a value of \$900,000).

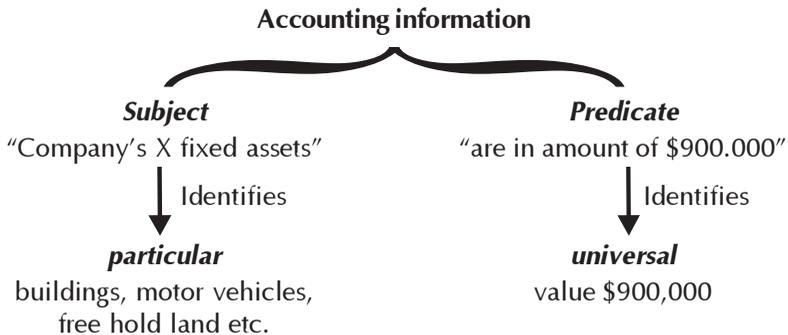


Fig. 3: Strawson's ontological model adapted from Searle (1969)

Searle (1969) argues that Strawson tries to avoid Frege’s contradictions by employing the apparently neutral term “*identify*”. But as Searle (1969) explains, Strawson does not say anything different from Frege: claiming an expression *identifies* or *refers to* an extra-linguistic object are actually the same thing.

d) Searle’s theory on predicate expressions

Searle (1969) considers that Strawson’s position is wrong, arguing that universals are not extralinguistic entities, their existence being dependent on their meaning and not on their reference.

(T)he existence of a universal follow(s) from the **meaningfulness** of the corresponding general term or predicate expression. (...) Entities such as universals **do not lie in the world**, but in our mode of representing the world, **in language** (emphasis added).

Thus, Searle (1969) does not make an ontological commitment to properties of things, the only entities accepted in his ontological model are objects/particular entities/things. The difference between subject and predicate expressions concerns their different functions: while subject expressions serve to identify an object from reality, predicate expressions serve to describe the identified object.

If we were to adopt this position in accounting, then valuation would not be an ontological problem. In other words, when measuring assets, liabilities, owner’s equity, accountants should not be concerned with identifying a real-world entity: a property of those objects, that is, their value.

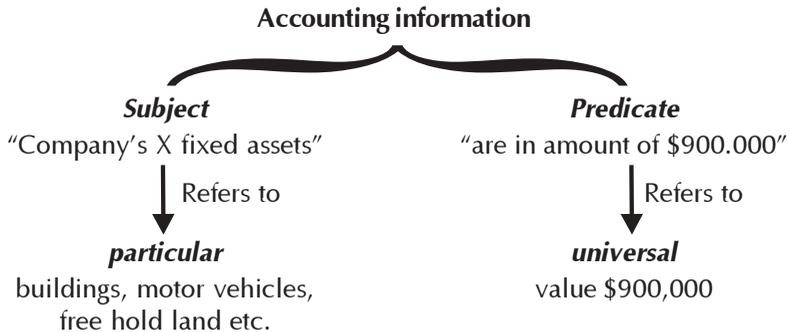


Fig. 4: Searle’s ontological model (adapted from Searle (1969))

This ontological position raises a number of questions. Hence, while the recognition problem is solved, as accountants will try to identify the real world objects to be presented in financial statements, and the reliability of their presentation will be judged based on the correspondence between what is being disclosed and reality, the measurement of those objects will still be an issue. In other words, after identifying the real-world object (e.g. the company's buildings), how should the users of accounting information judge the truthfulness of any statement concerning the valuation of those objects? Thus, an epistemological issue is raised, as correspondence theory of truth cannot be deployed anymore, as there is no ontological commitment to properties of things.

However, later on, Searle seems to abandon this perspective: in 1995 he is talking about the ontological status of properties – as he classifies them in terms of characteristics that are ontological objective (*intrinsic to nature*) or ontological subjective (*observer-relative*).

It is (...) an *intrinsic feature* of the object in front of me that it has a certain mass and a certain chemical composition. (...) All these features are intrinsic. But it is also true to say of the very same object that it is a screwdriver. [This] feature of the object (...) is *observer or user relative* (emphasis added).

In these terms, we can think of value as an *observer-relative feature* of the objects, as it cannot exist independently of human thought. But although ontologically subjective, value can be epistemologically objective when it does not depend on a particular attitude of a human being, but it is the result of collective intentionality. For example, the market value of a building depends on the demand and supply forces that operate on the market, thus being independent of any particular attitude of an economic agent.

Accordingly, value, although dependent on our representations, becomes independent of any particular representation when objectified by means of collective intentionality; in Shapiro's terms, it becomes "independent of the financial statements that attempt to represent it". Accordingly, the correspondence theory of truth can still hold, as users of accounting information can think of value as a real feature of the object that accountants try to describe.

Unfortunately, accounting does not deal only with *objective values*, i.e. market values. As sometimes there are assets that have no market values, as there is no demand or supply for them (for example, a very

particular asset that can only be used by a specific enterprise without major modifications being made). In these cases, accountants will disclose a *subjective value* based on the utility of that asset to the enterprise, which is determined, as Ionașcu (2003) put it, not by the “invisible hand of the market”, but by the “visible hand of the manager.”

In such cases, value cannot be regarded as independent of the financial statements that disclose it, hence, the epistemological problem still remains.

3.2. Postmodern theories of language and accounting representations

In contrast to modern theories, which consider *reference* a very important ingredient in defining meaning and truth, postmodern theories reject anchoring speech in an extralinguistic structure, considering such an attempt to ground the discourse as being the main source of contradictions in any system which embraces this approach.

Postmodernism brought Saussure’s structuralist theoretic to its logical conclusion. As Saussure demonstrated that the relationship between signs and references is arbitrary and that meaning is not *substantial* but *differential* – meaning is understood by differentiating signs within a system of language, then the reference is absent from the communicative act. Therefore, we have no reason for privileging reality to representation, or for defining truth as correspondence between signs and reality.

a) Derrida and the “metaphysics of presence”

According to Derrida (1967a/1976), the whole modern thinking is rooted in what he calls the “metaphysics of presence”. This expression characterizes all attitudes which assume that there is something *present* when we speak – a real world outside language – which we try to represent by means of language. We assume that there is a present, real object, which we then differentiate from other present, real objects with the use of signs within a system of language.

But Derrida (1972/1982) argues that we have no reason for privileging reality to representation, as we can only understand something through “difference” (French: *différance*), a concept invented by Derrida in order to signify both the *spatial* and *temporal* characteristics of language. Both terms come from the French word “différence”, derived in turn from the verb “différer” which means both to *differ* and to *defer*:

the word *différence* (with an e) can never refer either to differer as temporization or to *differends* as *polemos*. Thus the word *différance* (with an a) is to compensate economically - this loss of meaning, for *différance* can refer simultaneously to the entire configuration of its meanings.

Thus, by means of representation we identify an object, and this identification cannot be done unless we have already a system of language that we use to differentiate this object from others. This means ascribing words/concepts/signs to objects. In order to understand something as being real or present we have to use words/concepts. We can communicate and understand the world only by means of representations. Thus, we should not start our way of thinking with reality, but with representations. But if we start with representations, then there is no way out of this system of differences. As Derrida (1967b) explains, inside a system of language any sign is understood by means of other signs, and the latter signs are understood by the use of others (just like looking up a word in a dictionary). There is no possibility of ever getting outside language in order to ground our discourse on a nonlinguistic entity, termed the “transcendental signified”.

Therefore, Derrida argues, signs can never be fully present, as the meaning of one sign is dependent on the meaning of others in a chain of “infinite substitutions”. A sign encompasses both anticipations of future meanings and *traces* of past ones, thus, being never fully present.

Accordingly, signs are *differential* (trapped in a system of differences, i.e. in language) and *temporal* (as their meaning is an anticipation and a trace of past meanings), being actually a very brutal description of our experiences. Hence, although signs are necessary in order to understand the world, they can never be brought to full presence, being, in a certain degree, absent.

In these terms, Derrida deconstructs our traditional way of thinking – the metaphysics of presence – arguing that we have no legitimacy in privileging presence/nonlinguistic reality to representation.

b) Baudrillard and the “orders-of-simulacra” theory

Like Derrida, Baudrillard (1994) analyzes the relationship between signs and references, trying to demonstrate that signs have slipped free from their references (like they were ever bound to them, Derrida would say) and that they presently circulate in “hyperreality”, that is, in a realm of self-referential models.

To demonstrate this phenomenon, Baudrillard deploys a genealogical epistemology, by means of which he identifies four *eras of the sign*, each of them characterized by a specific sign-reference relationship:

- the Feudal Era, in which the sign is a faithful and transparent reflection of a profound reality;
- the *Order of the Counterfeit* – from Renaissance to the Industrial Revolution, in which the sign masks and denatures reality;
- the *Order of Production* – the industrial era, in which the sign masks the *absence* of any profound reality; and
- the *Order of Simulation* – present time, in which the sign has no connection to reality whatsoever, being pure simulacrum.

In order to prove that signs have slipped free from their references, Baudrillard paradoxically needed to ground his theory in reality: in the Feudal Era the signs faithfully represent a profound reality).

Macintosh et al. (2000) which use Baudrillard's genealogy to prove that accounting signs of income and capital have no reference in reality, explicitly acknowledge this drawback:

We do (...) fully recognize[e] that (...) anchoring the sign-referent relationship is problematic and cannot be <<grounded>> except by recourse to the very epistemological and ontological suppositions that we eschewed at the outset.

But, as Derrida argues, such a perspective, adopted for methodological reasons, although not wrong, is insufficiently radical for the analysis of the sign-reference relationship, being misleading and continuing to center the discourse in the *metaphysics of presence*. As far as Macintosh et al. (2000) are concerned, Derrida was right. Although they acknowledged that they anchoring their theory in reality for methodological reasons for which they had no epistemological justification, just as Derrida warned, their theory could not go beyond the metaphysics of presence.

Thus, after they tried to demonstrate that accounting signs of income and capital have no reference in reality, they began to contradict Baudrillard's theoretic, arguing that, at present, there are still accounting signs (such as fixed assets) which, just as in the Feudal Era, are a faithful representation of reality.

The previous sections of the paper erect a platform for critically engaging Baudrillard from an accounting perspective. (...) Many accounting signs today still have (...) a one-to-one correspondence with real objects. These include balance sheet accounts for physical objects like land, buildings, plant and equipment and inventory. Moreover, accounts receivable or payable, long term debt and sales retain a reasonable measure of transparency with underlying events, transactions and social obligations.

This is not a postmodern ontological position.

In addition, although their purpose was to analyze the accounting signs of income and capital, what they actually did was to analyze the value of those items. And this is because they did not realize that accounting information is in fact compounded of two signs: one that stands for the company's resources or sources of resources (e.g. assets such buildings, equipment, raw materials or owner's equity: capital, income) and one that stands for the value of those items (numerical signs e.g. \$100). So, they could not see that the hyper-reality of their examples was not in fact linked to the capital or income signs, but actually to the valuation of those objects.

Had they acknowledged the two components of accounting information, we might think that they would have adopted Searle's (1969) ontological model – as they seem to believe both in the existence of physical reality (e.g. land, buildings, plant and equipment) and of socially constructed reality (e.g. social obligations). But they think that value has no real-world referent.

From our perspective, Derrida's theory is superior to Baudrillard's as it demonstrates in a *reductio ad absurdum* argument the impossibility of a *metaphysics of presence*. Opposite to Baudrillard which employs a realist strategy (he grounds his theory in reality, assuming that in the Feudal Era the signs faithfully represent reality), Derrida (1967a) advances "deconstruction" as a tool for critical analysis which aims at exposing internal contradictions and untenable assumptions.

Therefore, in the next paragraph we shall try, based on Derrida's theoretic, to perform a deconstruction of the accounting valuation model.

3.3. Deconstructing the accounting valuation model

The accounting valuation model is centred on the neoclassical marginalist theory of value, which upholds that the source of value is the

utility of the commodities – given by the subjective preferences of the buyers.

This way of understanding value is just one of other possible ways and can only be grasped in the specific conditions of capitalism. As Tinker (1982) argued, accountants just take for granted this way of understanding value as if it were the only possible way, as though laws of supply and demand were similar to physical laws. Actually, this valuation model is historically and socially contingent, based on certain rules of distribution that can only be accepted in a capitalist society. In other words, this model assumes that value can be derived from all production factors (labor, land, capital); accordingly, such a model can only be accepted in a certain type of economy,⁸ the capitalist economy, which grants to a social class that is not directly involved in production the right to share the surplus value.

Letting aside the historical and social contingency of the valuation model, we shall try to demonstrate that anchoring values in an extralinguistic reality – the utility of commodities – is an idea without content. As we discussed previously, the ontological presupposition underlying accounting standards is *external realism*, the rules making bodies making an ontological commitment both to objects and to their properties. Hence, value is seen as a property of things which describes their utility, and the truthfulness of accounting information is judged by means of correspondence between accounting representations – descriptions/measures – and the phenomenon that they purport to represent.

But anchoring the valuation model in a metaphysics of presence has no legitimacy, since – according to Derrida – we can only have something through *differance*. In other words, value, like any other concept, is differential and temporal; a concept which can never be brought to full presence.

a) Value as *differance*

- **A static perspective on economy and the linguistic spatiality of the concept of value**

To understand the linguistic spatiality of the concept of value, we first employ a static perspective on the economy. This approach is justified since the marginalist theory of value, as it was initially developed by Jevons (1871), was inspired by Static Mechanics in order to explain economy's tendency towards equilibrium.

The value of goods and services is defined by means of their contribution to satisfying the utility of the consumers, whether end consumers or intermediate consumers/business enterprises, which act individually and independently with absolute rationality for the maximization of their utility on a market that tends to equilibrium. At equilibrium, every individual acting on the market has maximum utility, and any action that he/she would take as opposed to the equilibrium trend means a decrease in his/her utility.

A static perspective on the economic system would describe it as reaching an equilibrium status at a moment in time. In this perspective, the value of a commodity (asset/liability) presented in the financial statements – i.e. the market value – describes the utility of the commodity. This a real-world feature of goods, an observer-related feature, to use Searle's (1995) terms, since utility is given by the subjective preferences of the individuals acting on the market. Moreover, at equilibrium the value of the goods will depict their maximum utility.

But it is futile to privilege an extralinguistic entity (the utility of commodities) to accounting signs (the values disclosed in financial statements), as the meaning of value is not understood in connection to its reference (the utility of goods), but by differentiating it in a system of language. In other words, the meaning of value is not substantial (intrinsic to the sign), but differential (localized in a system of language). In a sentence like "Company X's fixed assets are in amount of \$900,000" nobody would understand what "\$900,000" meant, unless there were already a valuation system which differentiated utilities of commodities.⁹ Accordingly, the value ascribed to a commodity can only be understood as part of a structure, only in connection to other signs, which are then understood by the use of other signs without any possibility of ever escaping language in order to refer to an extralinguistic reality.

- **A dynamic perspective on economy and the temporality of the concept of value**

A static perspective on economy is just an approximation, because – as most of the neoclassic theoreticians agree – equilibrium is just a trend. A dynamic approach will allow a description of an economic system passing from an equilibrium status to another. Thus, the context in which value is understood is continuously changing, for example, the volatility of securities on the stock exchange reflects the day-to-day or even hour-to-hour changes in the willingness of investors to hold particular

stocks. Utilities are not constant in time, since value is a mixture of utilities anticipated and past, without being able to fully instantiate its presupposed reference.

In conclusion, the concepts of value assigned to the elements of financial statements are (like any other concepts) spatially localized in a system of language and time. They can never be brought to full presence; they are, to a certain degree, absent.

Although we said that the theory of value underlying accounting standards is contingent and can be very well replaced by another theory, holding on to the pretence that accounting information refers to an extralinguistic entity would still be untenable. For example, if the neoclassical theory of value were replaced by the labor theory of value, then, following *mutatis mutandis* the same rationale, we would get to the same result: the value of a commodity can not be understood in connection to a nonlinguistic entity, whether that entity is the utility of goods, or, as Ricardo would say, the socially necessary labor for the production of that commodity.

b) Financial accounting valuation and the “metaphysics of presence”

In order to expose more untenable positions concerning valuation matters, let us consider a broader perspective on the financial accounting valuation model.

First of all, what is the purpose of valuation in financial accounting? But why are we employing the term *financial*? No definitions of financial accounting ever consider this explicitly; they just underline the distinction between the purpose of financial accounting (to disclose information to external parties such as investors, creditors, employees, suppliers, customers etc.) and the purpose of managerial accounting (to disclose information for internal users; i.e. the managers of the company).

But if the user of accounting information (internal vs. external) is the criterion used for this classification, then the terms used for defining the classified categories (financial vs. managerial) is not justified. Then again, if the classification were based on the type of information supplied by these two activities – *financial vs. non-financial* information (that is, monetary measurements or not), then the classification would still lack justification, since both types of accounting provide information that is mostly financial in nature.

The dilemma is solved once we employ a historical perspective of accounting, and we acknowledge that financial accounting came into being when the enterprise became independent of its owners. More exactly, financial accounting came into being when the economic activities began to require funding that exceeded the financial resources of just one investor, or of a small group of investors. This is the moment when anonymous companies appeared – companies owned by a large number of investors which, for this reason, had to abandon the management of their resources. Although estranged from the company they owned, they were nevertheless entitled to know whether their resources were managed efficiently in order to decide whether they should maintain their investment and claim a part of the profit, or whether they should relinquish it and invest in a more profitable company.

Accordingly, the term *financial* is employed because the purpose of organizing this type of information system (i.e. financial accounting) is to supply information in order to assist decision-making on the *financial* market¹⁰. Thus, the implicit presupposition that underlines accounting standards is that financial accounting intermediates between the enterprise and the financial market; managers communicate with investors via financial statements.

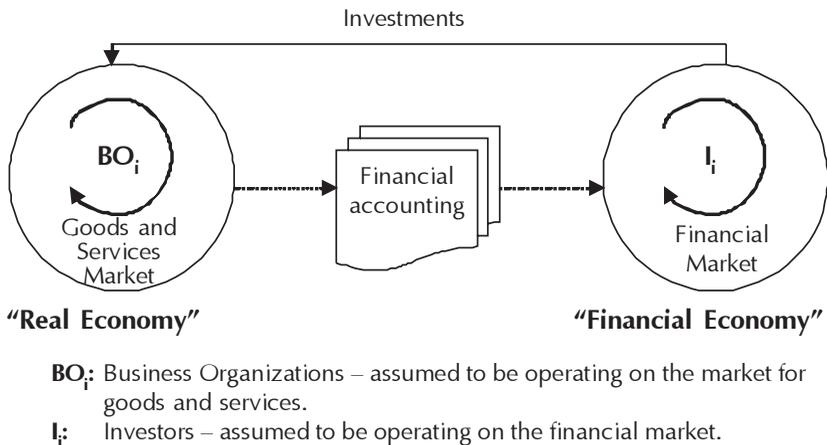


Fig. 5: Financial accounting as link between "real" and "financial" economy

In order to understand better how financial accounting is perceived, we shall focus on these two levels of analysis: the financial market level on the one hand, and the business organizations level on the other.

Firstly, the financial market is the market where all sorts of financial instruments can be traded. According to finance theory, people engage in transactions on financial markets in order to maximize their *wealth*. This contrasts with the market for goods and services, where people enter in order to satisfy their needs; in economic terms, to maximize their *utility*. But though the two markets have different purposes, McGoun (1997) argues that the notions of wealth and utility become equivalent once we accept that money (wealth) can buy happiness (utility). This statement is justified as by use of money people can buy things in order to satisfy their needs, thus wealth maximization implies utility maximization.

Following this rationale, the next step would be to acknowledge that money (wealth) is needed only to ensure satisfying needs by means of goods and services. Cases when money itself is the source of happiness form an exception, but these behaviours are considered aberrant in finance theory. (Money does not offer utility directly, but indirectly through goods and services). Accordingly, as McGoun (1997) put it:

In both our scholarship and our society, we are wedded to the notion that the financial economy (of money) exists for, refers to, and is meaningless without the so-called real economy (of things).

Secondly, in what business organizations are concerned, a common presupposition is that they operate in the real economy, in that they came into being in order to provide goods and services that will satisfy the needs of different consumers.

As financial economy cannot exist without the real economy, the valuation of money will need to refer to the market for goods and services. Thus, financial accounting will be the link between the real and the financial economy. Financial accounting will supply information in order to support securities valuation on stock exchanges.

Privileging the *real* economy over the financial economy enters the logic of metaphysics of presence: first we have business organizations operating in the real economy, then we have the stock exchange, where securities need to be valued (represented in terms of money); we assume

that there is something real (the companies' performance on the market for goods and services) which will be referred to by stock prices.

But the description we provided is quite a rough representation of what really happens, since business organizations do not operate only in the real economy, but also intervene substantially on financial markets. This happens, for example, when companies act like investors on the securities market purchasing stock as short term or long term investment. In these cases, the accounting valuation model becomes self-referential: in order to value securities on the financial market, accounting valuation (the valuation of a company's performance) is taken into account; but accounting valuation was previously influenced by financial market valuations, as securities prices were taken into account when the company's performance was assessed.

Macintosh et al. (2000) identified this phenomenon in accounting for financial instruments, although they considered it to be linked to the sign of "income".

(N)either the accounting sign nor the financial market sign appear to be grounded in any external reality. Instead, each model appeals to the other model for the only "reality check" available. Accounting signs model market signs, which in turn model accounting signs. Thus, in the hyperreal financial economy of simulation, the difference between the sign and the referent implodes. The signs become images of themselves in an imbroglio of ungrounded, self-referential simulation (...).

We do not agree that these examples expose the sign of "income" as being self-referential, but actually form the valuation model in financial accounting.

4. The epistemological problem in accounting

As we tried to demonstrate, privileging reality to representation is an idea without content in a postmodern perspective, Accordingly, defining truth in accounting as correspondence between accounting signs and reality should be abandoned and replaced with a "weaker" epistemological position.

The correspondence theory of truth is still problematic in accounting even for those authors, such as Shapiro (1997), who uphold external realism

as an ontological presupposition. Employing a deeper analysis of accounting information, we tried to show that in what valuation is concerned, sometimes accounting deals with subjective values, which, in Searle's (1995) terms, are not "epistemologically objective". If values are not "epistemologically objective", then they are not independent of the financial statements that try to represent them, thus correspondence theory of truth cannot be deployed anymore, as by no means someone can appeal to a "reality check".

Archer and Alexander (2003), who relinquish "external realism" as being a suitable ontological presupposition for accounting and financial reporting, draw on Putnam¹¹ (1981) and Rorty (1991) to advance a *coherence theory of truth*. According to this theory, truth is not conceived of in terms of correspondence with reality but is more a matter of consensus inside a community:

Truth, in an internalist view, is some sort of (idealized) rational acceptability - some sort of ideal coherence of our beliefs with each other and with our experiences *as those experiences are themselves represented in our belief system* —and not correspondence with mind-independent or discourse-independent "states of affairs" (Putnam, 1981).

In our opinion, abandoning *correspondence theory of truth*, and replacing it with *coherence theory of truth* offers but a partial solution, as we think that the issue actually rests in our current understanding of accounting and financial reporting.

So, first of all, we think that we should abandon our current perspective on accounting in favor of a more comprehensive one. More exactly, as Patz (2001) put it, understanding accounting as information, or as an information system, is the contemporary "mainstream perspective." In this perspective, accounting is seen as a *neutral* instrument intended to provide information in order to support investor's decision-making process, in the terms employed by finance theory: to ensure the efficiency of capital markets¹².

This perspective on accounting, we dare to say, is a modern perspective, as accounting is described as a *neutral* information system. But accounting is not at all neutral and this is something proven by numerous empirical studies published in the most prestigious research journals. These studies demonstrated that accounting policies have important economic consequences on distribution of wealth and risks

among different constituents of accounting sphere. Thus, we think that the accounting phenomenon should be thought of in a comprehensive perspective, taking into account ethical, political, sociological, and cultural factors. We think that the economic consequences of accounting information should be taken into account when defining the objective of financial reporting.

Therefore, we support substituting the current objective of accounting and financial reporting – *decision usefulness* – with *economic consequences*. This objective – put forward by Zeff (1978) – assumes that the main purpose of accounting and financial reporting should be the triggering of desirable socio-economic consequences, and, of course, avoiding undesirable consequences.

Accordingly, the truthfulness of financial reporting should not be judged based on their correspondence to economic reality, but based on the consequences they can bring about when influencing the decision-making process. In that, we advanced James's *pragmatic theory of truth*, which in our opinion suites best accounting, which is a pragmatic human activity *par excellence*.

5. Summary and conclusion

The purpose of this article was to discuss the ontological and epistemological presuppositions underlying accounting standards and to see whether they can hold to a postmodern critique. After a critical review of the ontological positions advanced in accounting, a deeper analysis of accounting information was put forward in order to avoid confusing recognition with valuation matters. This approach facilitated a discussion about the ontological status of value taking into account both modern and postmodern positions. Modern theories, which are grounded in reality in order to define meaning and truth, were opposed to postmodern ones, which uphold that the problem of reference is an idea without content.

In conclusion, taking into account the postmodernist claims, the *correspondence theory of truth* was abandoned (as there is no "reality-check" available) in favor of a "weaker" epistemological position, namely the *pragmatic theory of truth*. This epistemological position is considered to be best suited for the accounting domain, since accounting is above all a human practice that has very important economic, social and political consequences.

NOTES

¹ International Accounting Standards Board (IASB) has the mission of harmonizing the accounting standards issued by standardization bodies operating in various countries (for instance, in USA: Financial Accounting Standards Board (FASB), in UK: Accounting Standards Board (ASB), in France: Conseil National de la Comptabilité (CNC) etc.) due to the economic globalization.

In what concerns the need for accounting standardization, this is directly linked to the role played by accounting information in society. That is, accounting plays a very important role in the distribution of wealth in society, since decisions are made based on accounting information and as, of course, different information can lead to different decisions. Accordingly, there was a need for standardization of accounting practices, in other words: there was a need for a normative framework prescribing how accounting information should be prepared and disclosed.

These normative frameworks, in their advanced forms, such as those issued by FASB, IASB, or ASB, are compound of a *conceptual framework* on the one hand and of *accounting standards*, on the other. The conceptual framework is a meta-theory which defines the objective of financial statements, the users of accounting information, and the fundamental concepts of accounting. Based on the conceptual framework, accounting standards are issued concerning particular topics such as accounting for leases, inventories, fixed assets etc. in order to guide accounting practice.

² Concepts Statement No. 3 *Elements of financial statements of business enterprises*, www.fasb.org/st

³ Concepts Statement No. 2 *Qualitative characteristics of accounting information*, www.fasb.org/st

⁴ Plato in his dialog “Cratylus” (Platon, 2002) builds up a set of etymologies trying to argue that there is a causal relation between the sign and the reference, therefore, meaning is intrinsic to the sign, the perception of the sign being thus enough for the understanding of meaning.

⁵ Actually the *external realism* advanced by Searle is a reconstructed/extended version of the limited ontology of external realism, comprising both physical and socially constructed objects.

⁶ Derrida (1967a).

⁷ The analysis of modern theories of language is based on Searle (1969).

⁸ Advancing an etymology of the word *economy*, Derrida (1991/1994) shows that the meaning of the word encompasses accepting a set of norms of distribution and partition: *oikonomos* – the manager of the household being derived from *oikos* (household, property, family), but also from *nomos* (laws/rules in general) which comes from *nemein* (laws of distribution) and *moira* (laws of sharing/participation).

⁹ When Saussure tried to demonstrate how language works, he compared the meaning of words with the value of goods in economy, showing that a coin of 10 francs has value only in connection to other coins from the same monetary system (e.g. 10 coins of one franc) or to goods and services that it can acquire.

¹⁰ It is true that other external parties use the information provided by financial accounting, but they do it only in a residual way, as “the main economic actor” – as Zambon (2000) put it – the one that induces the logic of this type of information system – is the investor/the owner of the company. Even accounting systems (such as the international accounting system) which define on the conceptual level that the purpose of financial statements is to provide information for a large category of users, they do it only to say that other external parties, besides the investors, can use accounting information, but the logic employed for valuation is one profoundly influenced by the financial market.

¹¹ Quoted by Archer and Alexander (2003).

¹² Patz (2001), adopting a historical perspective, explains that the information paradigm replaced the measurement paradigm, in which accounting was thought of in terms of an instrument of representing reality. The measurement paradigm was abandoned once it was acknowledged that representing reality is not a purpose *per se*, but is subordinated to another purpose, namely satisfying the information needs of investors.

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