

Fair value and true and fair view: taxonomy, axiology, and teleology of concepts

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Abstract

Objective: To carry out an incursion into the interrelationships of the philosophy of True and Fair View, from a lato sensu perspective, and Fair Value Accounting, from a stricto sensu perspective, by defending the teleological and axiological relationships that exist between its concepts and accounting praxis.

Method: From this perspective, through discourse analysis of the philosophical assumptions of Hegel's Doctrine of Essence and Merleau-Ponty's Nature of Perception, a theoretical essay of a critical-argumentative nature was developed about these interrelations.

Results: With a view to contributing to the debate, the arguments defended culminate in the proposition of a Relational Perception Diagram between TFV, FVA and accounting praxis.

Contributions: The concepts of truth, justice and fidelity have permeated accounting theory and the practice of the accounting profession since its beginnings. In addition to the theoretical debate, its operationalization has given accounting an important role: interpreting and judging assessment data and incorporating them into the financial statements. In this way, the researcher is encouraged to interpret the essence underlying the doctrine of accounting concepts to expand the perceptions inherent to the ways in which they materialize in practice.

Keywords: Fair Value. True and Fair View. Accounting Theory.

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Introduction

"The perceived world would be the background always presupposed by all rationality, all value, and all existence. (Merleau-Ponty, 1934, p.25)

Francis Bacon (1561-1626), a 16th-century politician and philosopher, is considered one of the founders of the scientific revolution. He was known for his emphasis on the benefits of science for humanity. Committed to empiricism and the study of scientific methodology, he dedicated his work "The Instauratio Magna" (1620) to composing treatises that aimed to make scientific knowledge yield practical results for human life. Bacon attributed to science a specific mode of investigating facts, that of serving humanity and giving it power over things. In his work "Novum Organum" (1620), he warned that the inner truth of things defended by Aristotelian philosophy needed to be complemented by experience, as only truth, robustness of data, and a fair presentation of facts allow science to find more solid foundations, the true opposition between knowledge and opinion (Bacon, 1620; Nouvel, 2013).

In the field of Accounting, Luca Pacioli (1445-1517), the creator of the Venetian method of double-entry bookkeeping, dedicated the first chapter of his book "The Rules of Double-Entry Bookkeeping [Particularis de computis et scripturis]" (1494) to "the things that are necessary for a good merchant and the method of maintaining the ledger and journal, whether in Venice or anywhere else in the world" (Pacioli, 1494, p. 15). In this chapter, Pacioli asserted that in the medieval market of Venice, nothing was considered superior to the word of an honest merchant, and this trust was the basis of the faith they had in the reliability of an upright and truthful merchant.

However, it was essential to systematically organize all transactions so that each of them could be understood through the debit and credit method. According to Pacioli (1494, p. 23), "this is very essential for merchants because, without making entries systematically, it would be impossible for them to conduct their business, as they would have no rest, and their minds would always be disturbed." Since the purpose of every merchant is to obtain a legitimate and reasonable profit to sustain their business, Pacioli's treatise determined that for any business, an inventory is necessary. In this inventory, all valuable assets they possess must be accurately recorded, duly accompanied by three books: a memorandum, a journal, and a ledger (Pacioli, 1494). Since then, various scholars have contributed to the evolution of the theoretical framework of accounting. However, it was in William Paton's thesis (1922), with the shift in focus of accounting from Pacioli's record-keeping procedures to the needs of the business, that accounting science gained its first underlying postulates and principles (Barbosa & Niyama, 2020). When discussing the definition and fundamental role of accounting, Paton (1922) emphasized

that it is the accountant's duty to periodically analyze the records of the company's business in light of appraisals and inventories, as well as prepare relevant financial statements for shareholders, investors, managers, and other users. Paton (1922, pp. 5-6) stressed that:

Here we have the crucial point of accounting, the difficult and interesting part of professional practice. There may be some question as to how far the actual appraisal work is a part of the legitimate accountant's sphere, but at any rate, he must interpret and judge the appraisal data and incorporate them in his fundamental financial statements [in a true and fair way]. [...] It is only from this standpoint that it is proper to speak of accounting as a science.

It is clear that the concepts of truth, fairness, and fidelity have been inherent in the accounting profession since its inception, as well as in the theoretical debates surrounding it. In fact, the philosophy of the True and Fair View (TFV) of a company's financial position has been required by the European Union member countries in auditor opinions on companies' financial statements, influenced by English legislation, since 1948 (Jreige, 1998). In the United States, the requirement imposed on auditors for financial statements to be prepared in accordance with Generally Accepted Accounting Principles (GAAP) is likewise guided by the underlying principle that accounting information must be "presented fairly in all material aspects," which is equivalent to TFV (APB, 2016, paragraph 26).

In both cases, the True and Fair View philosophy has as one of its main components adopted to this day by standard-setting bodies, such as the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), in their conceptual frameworks: the primacy of substance over form (Hamilton & Ciarán, 2009). However, in a more specific context, the fairness criterion has also been used as a basis for measurement. To mitigate the subjectivity inherent in financial statement preparers, both the IASB and the FASB have standardized Fair Value Accounting (FVA), respectively, through IFRS 13 (2011) and SFAS 157 (2006), to provide greater credibility and utility to the values measured in financial statements (Roberts & Wang, 2019).

In line with these standards, the interpretation of the statutory True and Fair View (TFV) standard is consistent with recent developments in accounting theory, emphasizing the central role of relevance (value relevance) and reliability, both key concepts in accounting measurements that underpin financial reports (Visoto et al., 2017). The advocated interpretation equates fairness and relevance to appropriate and true disclosure, with a bilateral reciprocity, both of which are necessary for accounting information to be reliable. Empirical correspondence materializes in the fair value and refers to the equivalence between the measurements of assets and liabilities in financial statements and

the actual amount (proximity to the market economic value) they intend to measure (Ryan, 1988; Mora et al., 2019).

Thus, the aim is to develop a critical-argumentative theoretical essay with a view to contributing to the debate about the interrelationships that permeate the philosophy of the True and Fair View, from a *lato sensu* perspective, and the Fair Value Accounting, from a *stricto sensu* perspective, by defending the teleological (the reality of essential final causes for understanding the phenomenon) and axiological (the science of values, precepts, and rules that regulate human behavior) relationships between their concepts and the accounting praxis.

The conduct of the study through a theoretical essay is based on Meneghetti's arguments (2011), as it is a method commonly used in the social sciences as a way of generating knowledge with the purpose of promoting reflections that stimulate the reader to draw their own conclusions. Meneghetti (2011, p. 321-322) states that the essay "breaks the schematic and systematic logic of traditional science, especially of a positivist nature. Its strength, despite not being tied to methodological rigor, as is the case in scientific production, lies in its reflective capacity to understand reality."

2 True and fair view philosophy and fair value accounting

Dedicated to investigating the practical use of the True and Fair View concept among financial directors, auditors, and financial statement preparers in England, Nobes and Parker (1991, p. 360) noted that TFV "is a philosophical concept, not susceptible to being defined by detailed rules as it is a matter of ethics and morality," which implies that among stakeholders, there is "a shared common understanding of the purposes of financial information [...] with a consensus on what is fair."

Studies on TFV focus primarily on two lines of action: one aimed at establishing a definition of the term, and the other seeks to assess whether different stakeholders in accounting information share a similar cognitive structure and, therefore, share the same meaning of the true and fair view (Hamilton & Ciarán, 2009). This second approach, called structural linguistics, is based on the philosophy of language studies by Ferdinand de Saussure (1967) and structuralist anthropology by Levi-Strauss (1963). It assumes that TFV is intended for people who, in some way, live with the object and purposes of accounting and understand how its meaning is constructed and mutable over time, as perceptions of justice and interpretations of truth evolve (Walton, 1993).

The dynamic requirements of truth and justice are applied by accounting users (preparers, auditors, shareholders, investors, lay users, among others) based on cognitive interpretations of judgments (value judgments) (Walton, 1993). These meanings go beyond their intrinsic concepts as they are contextualized by the practical implications that

these words signify, shifting from an etymological level to a technical level inherent in accounting and behavioral practice (Houghton, 1987, 1988; Lyas, 1993; Walton, 1993; Low & Koh, 1997).

The TFV, as per Walton (1993) and Roberts and Wang (2019), represents a higher goal to be pursued in auditing, preparing, and understanding financial statements, as the pursuit of Generally Accepted Accounting Principles (GAAP) should reflect a collective awareness of the auditors' right to assert what is true and fair, as well as the legitimacy of preparers to present relevant, reliable, and trustworthy information that is accepted and recognized by stakeholders. In effect, the TFV deals with fulfilling a social function that goes beyond informing investors about the company's situation or reflecting the prevailing accounting regulations in the country, as it connects the welfare state to accounting (Oehr & Zimmermann, 2012).

The philosophy of TFV, in a broad sense (*lato sensu*), has been used by standard-setting bodies in strict accordance with the qualitative characteristics of accounting information as a guide for the conduct of financial statements and integrated reporting preparers. It confers upon the accounting science its social and even critical role in the viability of accounting practice judgments (Roslender & Nielsen, 2020). Although legitimized by accounting users as intrinsic to the recognition, measurement, and disclosure process, TFV in a narrow sense (*stricto sensu*) is manifested in accounting practice as the basis for measuring at fair value. It is equally subject to moral and ethical scrutiny in the most subjective valuation judgments.

Measurement can be understood as the "process of presenting the numbers corresponding to assets, liabilities, revenue, and expenses in the balance sheet and income statement" (Niyama & Silva, 2021, p. 103). Despite the easy assimilation of the meaning of measurement, "in practice, it is one of the most difficult challenges in accounting" (Niyama & Silva, 2021, p. 104). Given the multiplicity of measurement bases regulated by standard-setting bodies and the subsequent subjective judgment inherent to human behavior, "accounting is a discipline without any cohesive and unified valuation theory" (Sterling, 2021, p. 131).

Accounting, as the language of business, aims to be a truthful, fair language with relevant information, free from bias, in order to facilitate economic decision-making and the efficient operation of markets (Smiliauskas, 2013). This requires a common and consistent set of accounting concepts and measurement bases that global accounting standards should follow. Harmonized standards increasingly tend to be based on more general principles than detailed accounting rules that have evolved in different countries (Smiliauskas, 2013, p. 1). In this way, professionals must make ethical and sound judgments in the primary interest of a fair and true presentation.

The harmonization and updating of requirements for fair value accounting proposed by the IASB (IFRS 13) and FASB (Topic 820, the former SFAS 157) emerged as a response to global financial crises, aiming to achieve common objectives:

- a) reduce complexity and improve consistency in fair value measurement
- b) establish a single set of requirements for measuring all fair values
- c) clarify the definition of fair value, enhance transparency, and increase convergence between IFRS and US-GAAP

At the heart of Fair Value Accounting (FVA) is the controversial issue of whether market prices provide a true and fair valuation (Lustosa, 2017). Market prices are expected to be a complete and fair reflection of the present value of an asset's future cash flows, which is the core of the Efficient Market Hypothesis (EMH). Market prices, if not perfect, are at least efficient aggregators of information, as they serve as a one-stop shop for assessing value (Watts & Zimmerman, 1986).

If the Efficient Market Hypothesis (EMH) were strictly adhered to, the debate over fair value would be indisputable, and the market-based asset pricing would represent the recognition of their economic value. In this scenario, the interests of accountants, investors, and regulators would be perfectly aligned, meaning "accountants would have a verifiable valuation standard, investors a true and fair view of their true value, and regulators an objective means of assessing solvency" (Ball & Haldane, 2018, p. 5).

The current definition of fair value in IFRS 13 (IASB, 2011, p. 7) states, "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The inputs and valuation techniques (cost approach, market approach, and income approach) used to measure this current exit price (selling price) are categorized into three levels: the first level relies on actual prices in active markets for identical assets and liabilities; the second level uses prices for similar assets and liabilities; and the third level resorts to unobservable data to estimate an exit price. The fair value hierarchy prioritizes the first, second, and third levels, respectively, although the techniques in use may sometimes span multiple levels simultaneously (IASB, 2011).

The shift from historical cost accounting to fair value measurement reflects the needs of accounting users and the efforts of the IASB and FASB to establish accounting standards to reverse the declining relevance of financial statements. Whatever the reasons, "the incorporation of fair value accounting into the generally accepted accounting principles (GAAP) has profound significance for the field of accounting and for management philosophy" (Barlev &

Haddad, 2003, p. 383).

Financial statements based on historical cost provide information about the amounts of past transactions, are more objective as they reflect the exact value of these transactions, and reduce measurement costs. In contrast, historical cost accounting obscures the true financial position and results of a company's operations, providing ample room for manipulation. This problem is exacerbated as the relevance of accounting information measured at original cost diminishes over time since the initial recognition may no longer faithfully represent the values of assets and liabilities at their current market values. This situation allows management to manipulate reported earnings and conceal their lack of actual realization.

Empirical evidence suggests that fair value measurement, as opposed to historical cost, is more associated with stock returns and is more relevant. Although the reported values in accounting reports are not dependent on statistical associations between accounting returns and market values, these values should be measured in terms of their contribution to the management function, reducing agency costs, and improving management efficiency.

The reporting of fair value of balance sheet items, especially assets and liabilities, draws the attention of shareholders to the true and fair value of their equity and provides relevant information to stakeholders and workers in the pursuit of social well-being. Barlev and Haddad (2003, p. 384) also affirm that the adoption of fair value affects effective management of the company, "as it reduces conflicts and agency costs and increases the efficiency with which the company is managed." Furthermore, it brings about a radical change in the manager's perception of their duties to the shareholders.

However, the adoption of fair value, even though encouraged by standard-setting bodies, is not unanimous. In the quest for a true and fair view of financial statements, FVA makes it more challenging to ensure that the measured value obtained is fair, as observed by Lustosa (2017, p. 5):

Beyond the objectivity of the current net selling price in an active market, all other measures of value are expectations about the future, inherently uncertain and imprecise. Therefore, the desired fairness of the value measure cannot be in its accuracy but in the use of the correct concepts to measure the accounting elements.

In a scenario of abnormality, economic uncertainty, or the absence of an active market, "the measure found will always be inexact and subjective, and it would not be correct to call the quantity resulting from this arbitrary

calculation fair" (Lustosa, 2017, p. 5). According to the author, such a situation could constitute unfairness to fair value. Despite controversial issues about FVA, the essence of the standards is to provide recognition, measurement, and disclosure of specific aspects of financial reports to reflect the economic reality of the business and, therefore, present a true and fair view of the enterprise to all users of accounting information (FRC, 2014).

3 Teleological and axiological aspects of concepts and the logic of accounting practice

Teleology refers to the part of natural philosophy that explains the purposes of things. It derives from the Greek word "télōs," meaning purpose or end. It involves the study of objectives and destinies, aiming at the sense and essence of purpose (Abbagnano, 2020, p. 1110). Philosophy has made use of the study of thought, reason, truth, ethics, and knowledge, which permeate all branches of science (Ludícibus et al., 2020). From this perspective, Accounting Theory can be studied with specific purposes (teleologies), as highlighted by Ludícibus (2021), including the following approaches:

- a) ethical, accounting "should present itself as fair and unbiased to all stakeholders. It should be based on the notions of truth and fairness" (Ludícibus, 2021, p. 36);
- b) behavioral, accounting information "should be tailored so that users respond to the correct decision-making process [...]. It relies on subjective judgment of what is good or bad behavior or reaction" (Ludícibus, 2021, p. 37);
- c) macroeconomic, accounting practices focus on defined economic objectives, using the "behavior theory approach to achieve certain macroeconomic goals. [...] reporting relatively stable profits from period to period, which is achieved through flexible depreciation and provisioning policies" (Ludícibus, 2021, p. 38);
- d) sociological, asserts that accounting is judged by its effects on the social field. "It is a welfare-type approach, [...] serving broader social purposes, including properly reporting to the public on the extent and use of the powers of large companies" (Ludícibus, 2021, p. 39);
- e) socio-institutional approach gives accounting a scope beyond its technical and formal motivations, as the reliability and relevance of true and fair information in financial statements have a "symbolic and legitimizing character that can influence and be influenced by the social

structure, mainly within companies and in their broader environment [...]" (Ludícibus, 2021, p. 40); and,

- f) systemic approach aims to "identify, measure, and communicate economic, financial, physical, and social information in order to enable appropriate decisions and judgments by information users. It involves recognizing the types of information required [...]" (Ludícibus, 2021, p. 41).

Aristotle (384–322 BC) argued that all things (information, words, expressions, phenomena) have meanings that can be mutually predicated in ten categories to understand the essence of being: what (its substance); how much (its quantity); what kind of thing it refers to (its quality); what it relates to (its relation); where (the place); when (the time); what posture is implicit or explicit (position); under what circumstances (the state or condition); how active and what action (inherent action); and how passive and what passion (passion, the opposite category to action and activity) (Aristotle, 2019a).

Applying the Aristotelian categorization to the philosophical phenomenon of True and Fair View (TFV) and its relationship with fair value in light of the emphasized teleological approaches in accounting theory, one can infer:

- a) the substance of TFV and fair value refers to the ethical and moral (axiological) behavior guiding the practical conduct of accounting record preparers;
- b) the "how much" aligns with the expression of the magnitude of fair value measurement at any hierarchical level used according to IFRS 13 (IASB, 2011);
- c) the "quality" is delineated by the fundamental qualitative characteristics of accounting information, as information must be comparable, verifiable, timely, and understandable to be useful and relevant (IASB, 2018).
- d) the "relation" aspect refers to the completeness of the information, which concerns the coverage of the measured transaction (in whole or in part);
- e) "location" and "time" aspects are relevant to the accounting entries recorded in the journal and ledger books;
- f) the position or implicit stance aligns with the underlying conceptual framework for the true and fair presentation of fair value by the preparers of financial statements, whether based on rules or principles;
- g) the state or condition pertains to the need for contextualizing the economic and market reality of the transaction so that the recorded elements are relevant, useful, and faithfully represent the

economic value of items in the balance. It's worth noting that fair value under IFRS 13 is a market-based measurement, not entity-specific (Lennard, 2018); and

h) the categories "inherent action" and "passion" materialize the reflexivity (true and fair) experienced by the asset to satisfy the condition that the effective (even if approximate) market price on the measurement date is recorded.

Axiology, also known as the theory of ethical and moral values, encompasses the entire part of philosophy dedicated to this study (Abbagnano, 2020, p. 115). Aristotelian ethics assumes that its purpose is not solely theoretical, and its subject matter consists of all human actions and the judgments that people make about those actions. Therefore, it aims for a real improvement of a person's character through virtues (Aristotle, 2018).

When discussing truth and justice, Aristotelian philosophy argues that any just actions correspond to virtues when they implement social conditions that can qualify them as such. The justice of an action elevates it to the status of virtue, making it a socially commendable practice. "Thus, a just person is not one who theorizes about justice but one who practices it repeatedly to the point of establishing it as a virtue" (Aristotle, 2018, p. 110). From an axiological perspective, the measurement at fair value, as an exit price (IASB, 2011), and the philosophy of the True and Fair View (TFV) connect with the concept of universal justice advocated by Aristotle (2018, p. 114). In Aristotle's view, "justice is the complete virtue in the fullest and most proper sense. It is complete because a person who possesses it can exercise their virtue not only in relation to themselves but also in relation to others." In analogy to accounting theory, truth and the TFV reflect compliance with the laws of the state (established normative standards), which aim for the common good (utility of information), radiating effects to each citizen (relevance to accounting users). Their end (teleology of value relevance) is the attainment of the supreme good (axiology), which is happiness (social well-being).

Merleau-Ponty (1934, p. 27) expounds on the nature of human perception, stating that "the classical analysis of perception levels all of our experience to a single plane of what is judged, for good reason, as the truth." Thus, all consciousness is perceptual consciousness, and the evidence (embodied in financial reports) does not underlie perception (a subjective character inherent in the information user) but rests upon it, as it is the experience of perception that generates reliability and the expectation of truth and justice beneath (among all involved users). "In the perceptual field is where the conduct of others is outlined, as bearers of symbolic conduct and the conduct of the truth" (Merleau-Ponty, 1934, p. 31).

Thus, Aristotelian rhetoric (Aristotle, 2019b), as the art

of communication for persuasive purposes, embodied in accounting practice during the preparation of financial statements, from the perspective of fair value and the True and Fair View (TFV), must be convincing and irrefutable in expressing the prices of the asset elements in such a way that there is a consensus perception regarding the reliability and relevance of the information presented.

It is worth emphasizing that the description of the perceived world as scientific and true, based on contextualized evidence (e.g., the explanatory note declaring the model used for fair value calculation at level 3), imposes on the preparer and users of accounting information the task of true communication (True and Fair View), giving the perceived objects (accounting records and materialized reports) a new and objective dimension of tacit intersubjectivity (Merleau-Ponty, 1934).

In conclusion, would the teleological purpose of the True and Fair View reflect the fair value of accounting assets, or would it be Fair Value Accounting (FVA) that aims to present a true and fair view of accounting reports? The argument for the answer is supported by propositional logic and the philosophy of science of Bunge (1973), as follows.

4 Relational taxonomy between true and fair view (TFV), fair value, and qualitative characteristics

Bunge (1969) argues that, for the understanding of knowledge produced through scientific activity and the formulation of theories, there are philosophical assumptions (postulates) that must be known and followed, namely: (i) ontological realism or the conviction of the existence of a world independent of our will; (ii) pluralism of levels of reality, with specific truths and laws, emphasizing caution against hasty scientific reductionism; (iii) the postulate of the cognoscibility of reality or epistemological realism, which acts as a practical limitation to the claim of knowing; and (iv) the decisive validity of bivalent formal logic, which presupposes that every scientific theory and hypothesis must be logically grounded and expressed.

Regarding this last aspect advocated by Bunge (1969), it is worth noting what Cupani and Pietrocola (2002, p. 1) have stated:

Bunge believes that the logical point of view is insufficient to reveal the nature of explanation and proposes distinguishing other aspects. The epistemological aspect involves explaining as a process by which we expand, deepen, and rationalize our knowledge as we place the explained fact within a system of interrelated entities governed by laws. The ontological aspect

is the last one. In addition to these aspects, there are also the pragmatic (explanation serves as an answer to a "why" question), semantic (explanation is expressed through formulas with specific referents), and finally, the psychological (explanation leads to understanding). Assume-se, portanto, que o conhecimento produzido pela atividade científica, consonante o pensamento de Thomas Kuhn de que a ciência se desenvolve por meio de pequenas mudanças, as quais alteram a concepção de determinados fatos (Beuren & Souza, 2011), evolui sob essa lógica formal bivalente.

It is assumed, therefore, that the knowledge produced by scientific activity, in line with Thomas Kuhn's idea that science develops through small changes that alter the conception of certain facts (Beuren & Souza, 2011), evolves under this bivalent formal logic.

4.1 Propositional logic between TFV and FVA

Propositional logic seeks to establish a formal language in which declarative sentences (or propositions) can be expressed clearly and precisely, allowing for a judgment of true or false to be made about them (Rybakov, 1997; Nicoletti, 2017). Thus, two propositions "p" and "q" can be considered biconditional if they can be combined using the "if and only if" (\leftrightarrow) connector, and for the resulting combination to be considered logically true, "p" and "q" must simultaneously be true. To illustrate this, consider the following propositions:

p: TFV aims to reflect the fair value of accounting elements (Jreige, 1988; Houghton, 1987, 1988; Mora et al., 2019); and,

q: FVA aims to provide a true and fair view of financial reports (Barlev & Haddad, 2003; IASB, 2011; Chung et al., 2017).

The resulting biconditional operation, as described by Rybakov (1997) and Nicoletti (2017), can be stated as follows:

$p \leftrightarrow q$: TFV aims to reflect the fair value of accounting elements if, and only if, FVA provides a true and fair view of these elements.

Alternatively, due to its commutativity:

$q \leftrightarrow p$: FVA provides a true and fair view of accounting elements if, and only if, TFV aims to reflect the fair value of these elements.

Therefore, considering the axiological positions and studies mentioned in this study regarding TFV, it is possible to infer the status of truth to the first proposition "p." Given

that the second proposition "q" can be considered true and valid in the light of the normative concepts issued by FASB (SFAS 157) and IASB (IFRS 13), it can be logically accepted that TFV and FVA are biconditionally true teleologically.

Furthermore, the principles of propositional logic (Rybakov, 1997; Nicoletti, 2017) have been satisfied, including the Law of Non-Contradiction, which states that a proposition cannot be simultaneously true and false, and the Law of the Excluded Middle, according to which every proposition is either solely true or solely false, with no room for a third value. Bunge's (1969) scientific postulates highlight the following aspects:

- a) ontological: It is grounded in the axiological essence of TFV and TVA.
- b) pragmatic: It addresses the "why" question bidirectionally.
- c) semantic: It materializes in the explicit bivalent propositional logic formula.
- d) psychological: It aligns with the factual understanding of presented logic

In Hegel's Science of Logic (2017), objective logic is predicated in the doctrine of being and the doctrine of essence, while subjective logic leads to the doctrine of concept. The doctrine of essence originates from the logic referred to as determinations of human reflection, which deals with the essence of the truth of true being or the determination of true being. This truth goes beyond the immediacy of sensory appearances. The doctrine of essence aims to derive the categories that express the relationships between an apparent being and its structure (Hegel, 2017, p. 6).

Max Weber (1864-1920) dedicated part of his work to reconciling two divergent perspectives that had divided professionals in the social, historical, and cultural sciences since the early 19th century: the interpretive approach and the explanatory approach. In the interpretive tradition, the primary function of the researcher is to understand human meanings, so actions and facts should be understood rather than explained in terms of causality (Ringer, 2004). In contrast, from an explanatory perspective, historians and scientists focused on the causes of events, seeking trends based on past facts to enable generalizations (Ringer, 2004).

In attempting to clarify Max Weber's advocated process of methodological unification, it is observed in Ringer (2004, p. 16) that in the interpretation of past events:

we begin with the assumption that the involved agents pursued their goals rationally. [...] When we proceed to compare the predicted behaviors with the courses of action taken in reality, we adjust or supplement our models of rational action

in order to explain (a) the divergences between our conceptions or forms of reasoning and those of the agents we are trying to understand, and (b) the irrational motives and other intervening factors [the factual context].

In light of the principle of uncertainty in the social sciences, there are practical limits to accuracy and the notion of objective truth because "the observer concretely influences the observed object, making an exact definition of any object impossible, independently of the observer – highlighting an inseparable relationship between subject and object" (Wanderley, 2018, p. 14). The author further emphasizes that it is physically impossible to demonstrate with exactitude the extreme objectivity of the fact [the explanatory and technical approach] with the guarantee of the observer's impartiality [the interpretative and behavioral approach]. And this fact is not due to instrumental limitations but is an intrinsic law of nature. Therefore, it is a matter of the dialectics of essence, as the determinations of reflection merely pass from one category to another (as in the doctrine of being) but because each determination relates to the essence from the beginning (Hegel, 2017).

4.2 Reflective, extrinsic, and determining Reflection

From the Logic course taught at the Nuremberg Lyceum between 1810 and 1811, Hegel (2017, p. 37) proposed that essence (the truth of being) derives from being; "in this respect, it is not immediately in and for itself, but a result of that movement." Hegel (2017) suggests that essence, in the first instance, is reflection (reflective, extrinsic, and determining) and the foundation for existence and appearance. Thus, TVA functions as a reflective essence because instead of being able to start from the immediacy of a true and just view, its being is its own equality, which characterizes it ontologically. Hegel (2017, p. 47) clarifies that "reflection within itself [reflective] is essentially presupposing that from which it is the return."

External reflection is the essence that appears (externalizes itself) within itself (Hegel, 2017). Thus, TVA presupposes the set being or fair value (FVA) in financial statements. Therefore, in its setting, fair value corresponds, in the sphere of essence, to the set being. It "is equally a being there, but its ground is being as essence [...], being there is just being set" (Hegel, 2017, p. 52), this is the proposition of the essence of being there, that is, its appearance. External reflection begins in the immediate being, while reflective reflection, from nothing. In this sense, it is appropriate to understand how absolute truth (reflective being, in this case, the philosophy of TVA), once externalized (appearance of being, in this case, FVA), is perceived (determining reflection).

In the doctrine of essence, reflection corresponds to the appearance of essence within itself. Hegel (2017) argues that the determinations of reflection are observable in

the form of propositions, as it is absolute logic. Here, the postulate of the "decisive validity of bivalent formal logic" in Bunge's (1969) philosophy of science is understood. Regarding determining reflection, Hegel (2017, p. 56-57) positions it as follows:

The determinations of reflection used to be embraced in the form of propositions, which were said to hold in relation to everything. These propositions were considered the universal laws of thought, which form the foundation of all thinking, and they were considered in themselves absolute and undemonstrable. However, as soon as thinking grasps their meaning, it recognizes them and accepts them as immediately and unquestionably true.

Finally, determinate reflection, as evident data, should not be understood as judgment, for insofar as it constitutes relations in itself, it already contains the propositional form. Hegel (2017, p. 57) argues that the proposition differs from the judgment of value because in the former, the content constitutes the relationship itself; in contrast, judgment transfers its content to the predicate, differentiating and relating it to the subject as perceived qualities for its truth and essence, that is, its qualitative characteristics.

Thus, it is demonstrated that this is the philosophy of propositional logic existing between the TFV (ponent reflection), FVA (exterior reflection), and the qualitative characteristics of accounting information (determinate reflection) that enable the expressed truth, the faculty of intrinsic and inseparable value judgment to human beings, without affecting the true and just essence of the reported fair value.

4.3 Determinant reflection of the qualitative characteristics of accounting information

In the perspective of the determinant reflection of the fundamental qualitative characteristics of accounting information, within the context of qualifying the observable foundations (data) of information in order to enable the exercise of judgment value by observers (users of accounting), it is appropriate to clarify some of its deterministic conditions of being as qualitative predicates (relevance and faithful representation) of essence.

There is conflicting evidence in the literature regarding whether fair value measurements in accounting reports are relevant. A stream of empirical research suggests that information based on fair value is considered relevant by investors in the stock market (Mora et al., 2018). However, this relevance appears to be conditioned on the type of fair value information being disclosed, as information reported at level 3 (unobservable inputs for assets and liabilities) has been considered less relevant than that

reported at levels 1 and 2 (Marques et al., 2017). One potential explanation for this is the lack of transparency regarding the valuation models used for assets and liabilities measured at fair value at level 3. However, incremental disclosure about the inputs used to construct such models seems to compensate for the initial lack of transparency, assuming it is considered reliable (Chung et al., 2016).

Regarding relevance, Magnam and Parbonetti (2018) conclude that fair value-based information is likely more useful to stock market investors in assessing firm value but does not seem to be as useful for other stakeholders who have legitimate claims against a company, such as debt holders. They further highlight that from the perspective of standard-setting bodies, this conclusion presents a dilemma, as it is precisely shareholders and debt holders who are identified as the primary users of financial statements.

According to the IASB's conceptual framework (2018), for financial information to faithfully represent economic phenomena, it must possess three characteristics: completeness, neutrality, and freedom from error. Furthermore, prudence involves the exercise of caution when making judgments under conditions of uncertainty (Niyama & Silva, 2021). According to the IASB (2018), prudence is essential to ensure the neutrality of financial information and, therefore, its faithful representation. Here, we can observe the exercise of the qualitative influence of praxis (determining reflection) on the essence of being.

However, Magnan et al. (2015) clarify that under conditions of measurement uncertainty, fair value estimates at level 3 end up being less prudent, thereby undermining their faithful representation. Their findings demonstrate that the greater the proportion of level 3 fair value assets and liabilities on the balance sheet, such as in a financial institution, the more dispersed analysts' forecasts are. This suggests that level 3 fair value measurement confuses auditors more than it informs them.

However, as an essence, regardless of the measurement basis, these are manifestations of contextualized truths, true and just from the preparer's perspective. The judgment of value falls to the observer, who exercises it based on their perceived truths (Merleau-Ponty, 1934; Hegel, 2017). Therefore, the authors conclude that measuring fair value at level 3, instead of aligning with the objective of financial statements to provide useful information to investors for estimating a company's future cash flows, potentially hinders investors' efforts in this regard (Magnan et al., 2015).

Several factors may underlie the academic controversy surrounding level 3 fair value, such as the choice of

valuation model and underlying model assumptions (Marques et al., 2017; Lustosa, 2017). According to Magnam and Parbonetti (2018, p. 17), "in most cases, valuation models typically require the development of forecasts or expectations about various variables. However, the underlying truth is in the eyes of the observer." Milkman et al. (2009) caution that despite the efforts of preparers, the decision-making process of managers and auditors and the resulting actions, such as forecasts, can be influenced by unconscious biases.

4.4 Proposition of a relational diagram between TFV and FVA

The proposition of a relational diagram between TFV and FVA requires attention to the existing categories in the qualitative characteristics of accounting information and their relationships with the essence of Hegelian being manifested in accounting practice (conduct, action). In Figure 1, a proposed relational framework is highlighted, starting from the logical premise advocated in this study between FVA measurement and the TFV philosophy as guiding principles for the conduct of accountants and other users of accounting information under normal and unbiased conditions of ethical and moral behavior. The proposal is based on the diagrammed relationships of the philosophical aspects of Hegel's Doctrine of Essence (Hegel, 2017) and Merleau-Ponty's Perception (1934).

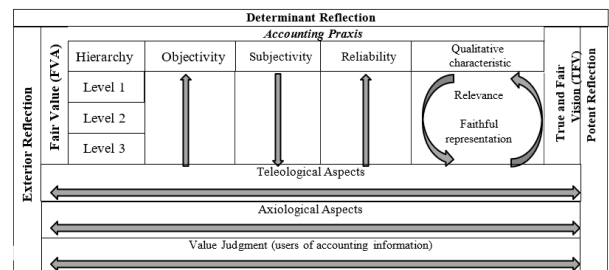


Figure 1. Diagram of relational perception between TFV, FVA and accounting praxis. Source: Own elaboration based on Hegel's Doctrine of Essence (2017).

The diagrammed arrows indicate the direction and degree of the relationships between the listed elements. In the context presented in this study, it can be stated in a concise summary that the external quadrants (reflective, exterior, and determinant reflection) guide and enable the perception of the being of the propositional logical identity between TFV and FVA (TFV<->FVA), materialized in the conduct of accountants (accounting praxis).

The specific and more restricted internal quadrants designate the qualitative predicates of accounting practice for the disclosure of the true and fair view (reflective reflection) materialized under the fair value measurement at its three hierarchical levels (exterior reflection).

Regarding determinant reflection, it is noticeable that the circular relationships emphasize that the fundamental qualitative characteristics of accounting information are present in the essence of TFV regardless of the hierarchical level of reported FVA.

To do so, the unidirectional vertical arrows demonstrate that the degree of objectivity of accounting information at the first hierarchical level of fair value is higher than in the other levels. This relationship is inversely proportional to the degree of subjectivity (uncertainty) of the reported information, indicating the need for more detailed calculation bases and models used at higher levels, which increases the reliability (and usefulness) of the presented information.

The bidirectional horizontal relationships within the comprehensive internal (lower) quadrants indicate that the teleological (purpose-driven) and axiological (ethical and moral) aspects of the advocated logical relationship (TFV \leftrightarrow FVA) linearly pervade the entire accounting practice, without impairing the ability of information users to exercise judgment regarding the reported truth (bivalence of the explanatory/exterior and interpretive/ponent perception).

5. Conclusions

Epistemologically, Merleau-Ponty's (2015) perception of truth should be understood as a reference to a whole that is aprioristically incomprehensible, except through some of its parts or aspects. Thus, "the perceived thing is not an ideal unity possessed by the intellect; [...] [it is, therefore,] a totality open to the horizon of an indefinite number of prospective views" (Merleau-Ponty, 2015, p. 29).

In this context, the philosophy of TFV in accounting allows for the materialization of the paradox of perception, since it does not exist until someone can perceive it. Its materialization through fair value, at any hierarchical level, denotes an objective truth, the perception of which takes place in the depths of human subjectivity, "where the conduct of others is outlined according to the typical conducts of which I myself have experience" (Merleau-Ponty, 2015, p. 32).

By proposing a diagram of relational perception between TFV, FVA, and accounting practice, this study fulfills its purpose of bringing empirical manifestations of uncertainty underlying fair value into the realm of objectivity without altering the essence of truth (TFA) manifested in the axiological conduct of accountants when preparing financial reports.

The bivalent logical identity advocated between TFV and FVA demonstrates that the essence of truth is the perceived truth, therefore subject to uncertainties and the scrutiny of value judgments by users of the information. However,

standard-setting bodies such as FASB and IASB have made efforts to provide standards capable of giving substance to the expression of truth manifested in financial reports, thereby enabling a solid basis for compliance with GAAP and the reliability of its informative content.

The scenario of apparent uncertainty regarding fair value should not be the result of men's observational deficiencies in perceiving the true and just view. Neither should it be attributed to the fact that perceptual observation affects the essence of the observed fact, as it is an intrinsic characteristic of nature since the dawn of humanity.

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