The Objectives of Financial Reporting: A Historical Analysis

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The aim of this article is to survey and analyze the succession of writings on the objectives of financial reporting during the past 90 years. I begin with the extensive literature, including the several recommended conceptual frameworks, in the United States and then proceed to those in Great Britain, Canada, and Australia, following which I discuss the frameworks issued by the IASC and most recently by the IASB/FASB. I then offer summary remarks about Continental Europe. Attention is drawn to the criticisms of the objectives approach as well as of its possible perverse consequences for the remainder of the framework. In the course of the discussion, I undertake to trace the evolution of stewardship and conservatism, or prudence, in the series of frameworks.

Keywords: objectives; financial statements; financial reporting; conceptual frameworks; stewardship; conservatism; prudence

1. Introduction

The modern accounting literature on the ‘objectives’ of general-purpose financial statements issued by business enterprises began in earnest once the ‘decision usefulness’ world-view entered the literature, initially in the United States in the 1950s. Prior to then, the authors of articles, handbooks and treatises did indeed refer, often perfunctorily, to the purposes or aims or functions (seldom using the term ‘objectives’) of company financial statements, but often there seemed to be no link, or association, between these asserted purposes of the these statements and their actual contents, notably the

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When italics are used in quotations, they appeared as italics in the original. References to ‘he or she’ will be avoided: ‘he’ will imply ‘he or she’.

2 In order to keep this research project to a manageable size, I do not include coverage of the considerable literature on social reporting, sustainability reporting, and integrated reporting. I do not address the issue of objectives for the public sector.
recognition and measurement of assets and liabilities and the determination of profit. To some considerable degree, these asserted purposes were colored by the stages of development of credit and equity capital markets for the financing of enterprise as well as the influence of evolving government regulation, income tax and bankruptcy legislation, and court decisions. When authors referred to functions or objectives, they often meant the users and their needs, rather than what the preparers sought to achieve. Also, frequently the stated purposes were drawn from practice, not advanced as normative propositions. The earliest expression of the purposes of financial statements consisted of a mention, or perhaps even an enumeration, of users, without much comment on how the users would actually make use of the financial statements.

Since the 1960s, statements of the objectives of financial statements (or financial reporting) have been the jumping-off point when propounding what we today call conceptual frameworks, although attempts at formulating coherent theories of accounting go back to the 1920s. While I believe that the literature on objectives began in earnest with the decision-usefulness literature in the United States in the 1950s, one can find an alternative view that there existed, prior to then, a reasonably clear understanding of the objectives of financial statements in terms of stewardship, even though it might not have been expressed in those terms, and even though it was not expressed as prominently in authoritative pronouncements as the subsequent decision-usefulness views.

Statements of objectives have occasionally stirred controversy (eg, see sections 3.4, 3.5 and 8), but they have been less contentious than the parts of conceptual frameworks dealing with recognition and measurement, and, as indicated at more than one place below, some believe that the choice of objectives has had little, if any, significance, for what follows in a framework. Studying just the objectives and not systematically the rest of each conceptual framework is somewhat akin to reading just the first act of a classical five-act drama: one misses out on the climax and dénouement in the subsequent acts for which the first act just begins to set the stage. To avoid being too narrow, I will occasionally ‘peek ahead’ to some to the parts of the frameworks concerned with qualitative characteristics and measurement.

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3 In 1978, as will be seen, the Financial Accounting Standards Board (FASB) expanded objectives of ‘financial statements’ to ‘financial reporting’.
4 For historical studies of these efforts at building coherent theories, and eventually conceptual frameworks, in the United States, see Storey and Storey (1998) and Zeff (1999). A historical study of the development of the FASB’s conceptual framework from 1973 to 1985 may be found in Gore (1992). Miller, Redding and Bahnson (1998, chap. 4) provide an extensive discussion of the FASB’s conceptual framework and its development. For international histories of conceptual frameworks, see Macve (1981) and International GAAP® 2010 by the International Financial Reporting Group of Ernst & Young (2010, chap. 2). This was the last annual edition of the Ernst & Young handbook to contain the historical chapter.
In the English-speaking countries surveyed in this article – the United States, Great Britain, Canada and Australia – the series of conceptual frameworks have been developed by committees or boards in the private sector, without public sector oversight, except in the United States. In Continental Europe and other civil code regions, the frameworks have been developed mostly by the relevant government departments. As will be noted below, in English-speaking countries the completion of such a framework can be regarded as enhancing the legitimacy of the standard setter.

1.1. An overall conceptual classification of approaches

It may be helpful to distinguish between two fundamental approaches in the literature on objectives: ‘functionalist’ v. ‘representationalist’. The functionalist approach defines the objectives in terms of certain actions (eg, uses by users) and then specifies the attributes of information that are most likely to result in, or facilitate, the intended actions. It is basically an open-ended approach without any preconceived notions about what kind of information is needed. It will accept whatever kind of information that will produce the intended actions by the intended users. The contracting approach advocated by Watts and Zimmerman (1986) and their followers is a good example of this approach. Most, but not all, of the studies done in the ‘decision-usefulness’ mode have been functionalist.

The representationalist approach is where the objectives are couched in terms of representing some well-understood economic phenomenon, giving information about one or more identified variables (ie, income or financial position). Users can decide for themselves whether the information is relevant and what to do with it. Taking this approach leads one directly to the language of ‘measurement’ in accounting. One can argue that to ‘give a true and fair view’ or to ‘present fairly’ a company’s financial position and results of operations implies that there is some ‘economic reality’ to be reflected in the accounts. The so-called ‘a priori’ or ‘true income’ theorists (see Nelson 1973 and Committee on Concepts and Standards 1977) exemplify the representationalist approach.

There will always be a degree of tension between these two approaches, and it will not always be clear which approach an author actually subscribes to. Some authors, for example, who use the vocabulary of the functionalist approach may in reality be representationalist in their ideology. In the course of this paper, I will suggest how one or the other approach helps us better understand, and classify, the purport of particular writings.

1.2 Stewardship

I am grateful to Kees Camfferman for suggesting this dichotomy.
The contemporary issue with stewardship is whether the most recent attempt at stating the objectives of financial reporting in the decision usefulness mode has gone too far in diminishing its importance. After reviewing the historical literature, I find that, in the series of attempts in the English-speaking world to formulate objectives in terms of decision usefulness, the authors have all posited a separate role for stewardship in their framework – until 2010, when the IASB/FASB, in the early chapters of their joint framework, dismissed it from separate standing. As will be seen, there is a view that the decision not to accord stewardship separate status in the objectives can have implications for the remainder of a framework.

I also note that the objectives literature has not resulted in an agreed or stable meaning of stewardship. What is stewardship intended to connote? Does it mean management’s honesty in husbanding the enterprise resources? Does it mean also management’s efficiency in utilizing them? Does it even mean providing the shareholders with a suitable return on management’s employment of the resources? Over the decades, the meaning of the term seems to have evolved gradually from the first of these definitions towards the last, although some usages of the term seem to encompass parts of all three definitions. Is stewardship reporting intended to enable the shareholders only to take actions to remunerate, promote, or dismiss management, or is it intended to enable them to make rational decisions to buy and sell their shares? How does stewardship differ, if at all, from accountability?

Ross M. Skinner and J. Alex Milburn (2001, p. 586) have noted ‘the strong tradition in accounting history to the effect that the purpose of accounting is to report on the stewardship of management’. As an extension of this, they write, some suggest that such information is vital to facilitate contracting and the operation of control devices to ensure the enforcement of contracts. These include contracts between owners of an entity and its management, between the entity and creditors, and between management and subordinates. The agency theoretic, or contracting, school focuses on the need for shareholders to receive control information for monitoring and rewarding managers’ performance so that it does not deviate from shareholders’ expectations (Watts and Zimmerman 1986, chap. 8).

In reaction to the discussion paper leading to the decision in 2010 by the IASB and FASB, in their joint conceptual framework, to fold stewardship into the overall decision-usefulness objective of financial reporting, some writers have argued that the framework should recognize stewardship

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6 After reviewing the literature on these and other issues relating to stewardship, Paul Rosenfield (1974, p. 132) concluded, ‘Confused terminology and the absence of analysis have deterred accountants from discovering just where [stewardship] leads’. Rosenfield’s essay contains extensive quotations from the US literature between the 1940s and 1972 on stewardship and accountability.

7 Frøystein Gjesdal (1981) reviewed the stewardship literature and formulated a generalized agency theory model in order to analyze the issue.
as a separate objective,\(^8\) which has given rise to a lively debate (see section 8). Because of this contemporary importance accorded to stewardship, I will endeavor to track the role which stewardship has apparently played in the series of framework writings surveyed in this article.

1.3. Terminology

Although classified as a ‘qualitative characteristic’ and not as an element in the ‘objectives’, conservatism has been a controversial quality of accounting information for decades, and, as used in shareholder-manager agency situations, it has become an issue of increasing interest to academics (Watts 2003; Whittington 2008b, p. 499). It seems useful as a part of this historical enquiry to track the role (or non-role) of ‘conservatism’ or ‘prudence’ in the series of conceptual frameworks. To some authors, prudence is preferred over conservatism, as the latter can be interpreted as a deliberate and pronounced understatement of net assets and profit, while the former may be viewed as conservatism only in the face of uncertainty. Still others reject both prudence and conservatism. IASB Chairman Hans Hoogervorst recently introduced the word ‘caution’ as an alternative to both conservatism and prudence.\(^9\)

Another troublesome term is ‘investors’. It may signify existing shareholders, existing and potential shareholders, existing holders of equity and debt securities, or existing and prospective holders of equity and debt securities. Frequently it is not clear from the context in which the term is used precisely which meaning the author has in mind.

Yet another term with diverse meanings, or at least diverse interpretations, is ‘decision usefulness’. Its most general meaning is ‘to provide financial information about the economic affairs of an entity to interested parties for use in making decisions’ (Committee on Concepts and Standards 1977, p. 13). To some authors, it refers to enabling investors to predict the amount and timing of future cash flows when making an investment decision. To others, the array of users may be more expansive (e.g.,

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\(^8\) Andrew Lennard (2007) argued that the stewardship objective should be specifically acknowledged in the objectives of financial reporting. The European Financial Reporting Advisory Group (EFRAG) issued a paper (Stewardship/Accountability as an Objective of Financial Reporting 2007) which reported that 78 percent of the respondents to the IASB/FASB’s discussion paper on objectives supported the view espoused by Lennard (paragraph 3.2(a)). The paper concluded that ‘[stewardship/accountability] should be ‘retained as an objective of financial reporting to ensure that there is appropriate emphasis on company performance as a whole and not just on potential future cash flow’ (paragraph 7.1). The paper was prepared by the staff of the UK Accounting Standards Board (ASB) and was approved by the ASB, EFRAG, and the accounting standard setters in Denmark, France, Germany, Italy and Poland.

see the discussion of *The Corporate Report* in section 4.2) and the decision or decisions being made may be diverse, even discordant, or may have a different focus. Depending on the interpretation which one places on ‘decision usefulness’, it may encompass stewardship as a separate objective, or it may not.

1.4. *Organization*

In this article, I will focus mainly on the frameworks that employ the term ‘objective’ or ‘objectives’ of accounting, financial statements, or financial reporting. Prior to the emergence of decision usefulness as the preponderant mode of framing one’s argument, authors discussing objectives typically used other terminology, such as purposes, uses, or functions. I will be sampling some of the pre-decision usefulness literature in the various countries so as to suggest what this earlier literature looked like. In order to place a limit on what is already a very long article, I will not explore the literature prior to the twentieth century.

Part 2 of this article will sample the extensive literature in the United States during the ‘pre-decision usefulness’ period, followed by Part 3, which will take up works using the ‘decision usefulness’ objective, done mainly by committees and by, or for, standard setters, beginning in the 1960s and concluding with the FASB’s *Statement of Financial Accounting Concepts No. 1*, issued in 1978. Part 4 will cover Great Britain, followed by Canada (Part 5) and Australia (Part 6). Part 7 will treat the International Accounting Standards Committee’s 1989 Framework, and Part 8 will deal with chapters 1 and 3 in the joint IASB/FASB conceptual framework, issued in 2010. Part 9 will be a review, in summary fashion, of Continental Europe. Criticisms of the ‘objectives’ approach are introduced as they are raised in relation to particular frameworks. Part 10 will be the conclusions.

2. *US literature on objectives: Pre-decision usefulness literature*

2.1. *Some comments on the US legal culture*

Prior to Congressional passage of the Securities Acts in 1933-34, corporate financial reporting was regulated, such as it was, by the states. From the nineteenth century onwards, state corporation acts have been woefully inadequate to provide shareholders, let alone the public, with meaningful financial information (Berle and Means 1932, pp. 317-321; Ripley 1927, p. 166). The states were competing with each other in a ‘race to the bottom’, to impose as few obligations on company boards of directors as possible at a time when businessmen’s attitudes towards corporate publicity was decidedly negative. The legal scholar Henry Winthrop Ballantine (1946, p. 388, footnote omitted) wrote, ‘Very few state statutes...require corporate reports to the individual shareholders, except certified financial statements
upon special demand of a certain percentage of the shareholders’. It was not until 1978 that the American Bar Association’s Model Business Corporation Act (MBCA) contained a provision which would require corporations to provide annual financial statements to shareholders. As of 2011, only 14 states, not including Delaware, had adopted the MBCA provision in section 16.20 that corporations must furnish each shareholder with annual financial statements (*Model Business Corporation Act Annotated* 2011, p. 16-94). The provisions in the states’ corporation laws on the legal limits imposed on the declaration of dividends have to some degree influenced accounting practice. However, these provisions have differed from state to state, and typically the key accounting terms used in the laws (eg, surplus, profits) are not defined or vary in meaning among the states (Zeff 1961).

In regard to securities legislation, the states’ ‘blue sky laws’ administered by the mostly weak state securities regulators could be circumvented simply by operating across state lines (Hawkins 1962, p. 182). From the turn of the century to 1929, the New York Stock Exchange (NYSE) regularly took steps to urge its listed companies to disclose annual and even interim financial information, but its only real leverage was over newly listed companies. Companies could instead go to the unlisted New York Curb market or to one of the regional stock exchanges, which had far less stringent reporting requirements (Hawkins 1962, pp. 239-251; Berle and Means 1932, p. 319; Ripley 1927, p. 213). Nonetheless, by the early 1930s, the NYSE did succeed in persuading the large majority of its listed companies to provide informative and audited financial statements (Benston 1976, pp. 28-29). Until passage of the Securities Acts, there was no authority at the federal level to regulate financial publicity by companies whose securities were traded in interstate markets. One reformer, William Z. Ripley, argued in 1926 (p. 399) that the Federal Trade Commission should assume that authority. As a result of this legal culture at the state level in the United States, the idea of stewardship reporting – namely, obliging the directors of a company to report regularly to shareholders on their performance – lacked legal backbone.

### 2.2. The early ‘authoritative’ literature and the views of George O. May

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10 Another 25 states, again not including Delaware, require corporations to furnish shareholders with annual financial statements only upon their written request. The MBCA, as well as these 39 states, do not require that the financial statements be prepared in conformity with ‘generally accepted accounting principles’ or that they be audited by an independent public accountant (p. 16-94). According to the Secretary of State of Delaware, more than half of all publicly traded companies in the United States, including 63 percent of the *Fortune 500*, are incorporated in Delaware. See [http://corp.delaware.gov/aboutagency.shtml](http://corp.delaware.gov/aboutagency.shtml).

11 Only some state corporation laws refer to the ‘authoritative’ literature in accounting (eg, ‘generally accepted accounting principles’, GAAP), but not as a requirement, in regard to the preparation of financial statements. Until 2012, California was the only state requiring that GAAP be the arbiter of accounting terms, such as profits and retained earnings, when directors declare dividends. But California no longer has the GAAP requirement. I am grateful to Matthew Barrett for this information.
The first authoritative advice on accounting practice in company financial statements was a memorandum prepared by the American Institute of Accountants in 1917 at the request of the Federal Trade Commission ‘in connection with the study of the statements made by merchants, manufacturers, etc. as showing the condition of their business’. It was thereupon published by the Federal Reserve Board as a step towards raising the standard of such statements for bank credit purposes (‘Uniform Accounting’ 1917). The Federal Reserve Board published a revision of the memorandum in 1929 (Verification of Financial Statements 1929). Even though this memorandum dealt with financial statements being used for bank credit purposes, it was, until then, as Hawkins wrote, ‘the most comprehensive and authoritative document related to financial statement disclosure published in the United States’ (1962, pp. 218-219). It was called by some ‘the accountant’s bible’ (Hawkins 1962, p. 225). Its recommended format for the asset side of the balance sheet was liquid assets first, which was contrary to the general practice (probably influenced by the British Companies Act) that plant should be listed first. Some large companies, such as General Motors Corporation, adopted this recommendation in their annual financial statements destined to shareholders, even though it was believed, as Henry Rand Hatfield wrote, that ‘the investor, who is interested in the much larger item of permanent investment, prefers to give precedence to plant and other fixed assets’ (1927a, p. 12).

In 1930, following the Stock Market Crash of October 1929, the New York Stock Exchange invited the cooperation of the American Institute of Accountants in its effort to improve the financial reporting by its listed companies. The Institute responded by appointing a special committee composed of the senior partners of five of the most important audit firms based in New York City, including as well the Institute’s president. The committee’s chairman was George O. May, the senior partner in Price, Waterhouse & Co. and the doyen of the accounting profession from the late 1920s to the 1940s. In 1932, he sent a letter containing a statement of the committee’s (really May’s) accounting philosophy to the Exchange. His aim was to lay out the norms for the accounting principles that the Exchange should expect to be used in the financial statements of its listed companies. May had been articled as a Chartered Accountant in England prior to immigrating to the US in 1897. He referred almost interchangeably in his letter to both investors and shareholders as the parties for whom the financial statements were to be prepared. His advice about shareholders is of interest (Audits of Corporate Accounts 1934, p. 11):

12 Despite its title, the memorandum dealt mainly with the conduct of balance-sheet audits. Yet it contained considerable advice on format, classification, measurement, and disclosure in the balance sheet and profit and loss statement. It was also published in the June 1917 issue of The Journal of Accountancy under the title ‘Uniform Accounting’.
The purpose of furnishing accounts to shareholders must be not only to afford them information in regard to the results being achieved by those to whom they have entrusted the management of the business, but to aid them in taking appropriate action to give effect to the conclusions which they reach regarding such accomplishments. In an earlier day, stockholders who were dissatisfied with the results secured by the management could perhaps move effectively to bring about a change of policy or, failing that, a change of management. With the growth in magnitude of corporations and the present wide diffusion of stock holdings, any such attempt is ordinarily impracticable because of the effort and expenditure that it would entail. The only practical way in which an investor can today give expression to his conclusions in regard to the management of a corporation in which he is interested is by retaining, increasing or disposing of his investment, and accounts are mainly valuable to him in so far as they afford guidance in determining which of these courses he shall pursue.

May's argument was that, while stewardship was still relevant to shareholders, the actions available to them suggested also that reporting to the capital market had come to possess equal valence, following a decade in which the New York Stock Exchange had successfully promoted ‘shareholder democracy’ (Ott 2009). In the letter, May also declared that ‘It is probably fairly well recognized by intelligent investors today that the earning capacity is the fact of crucial importance in the valuation of an industrial enterprise, and that therefore the income account is usually far more important than the balance-sheet’ (Audits of Corporate Accounts 1934, p. 10). This represented a fundamental shift in thinking from earlier decades, and indeed earlier centuries (Littleton 1933, p. 153), when the balance sheet was viewed as the primary financial statement. This shift underscored the emergence of the shareholder in his capacity as investor as the paramount user of the financial statements, even before passage of the federal Securities Acts of 1933 and 1934. This shift to investors at this point reflected a ‘representationalist’ view, because it was so closely tied to emergence of income as a key concept. In 1937, May could write that the determination of net income ‘is now generally recognized as the most important single problem in the field of financial accounting’ (p. 346).

In his Financial Accounting: A Distillation of Experience (1943), the synthesis of his accounting philosophy, May was torn between the ‘old’ use of accounts, that is, for stewardship, with its emphasis on a historical reckoning for the benefit of the long-term investor (ie, the existing shareholder), and the ‘new’ use of accounts, which was to provide a gauge of earning capacity for the trader in the markets.
Throughout his discussion of the concepts of income, cost and value, and the accounting methods applied to particular classes of assets and liabilities, he reminded the reader of the contending approaches: ‘the present ferment in accounting thought is very largely due to conflicting objectives of those who would continue to regard financial statements as reports of progress or of stewardship, and those who would treat them as being in the nature of prospectuses’ (p. 21). Perhaps because of his English background (see section 4.1.), May was reflexively drawn to the stewardship objective, yet he knew that the accounting profession must come to grips with the ‘modern’ use of accounts by traders in the markets. Because of changes in the bankruptcy law, even the credit grantor, he said, was no longer interested in the ‘pounce’ value of the assets: his interest had shifted ‘from salvage value to earning capacity, where reorganization is possible’ (p. 25).

2.3. The views of other leading authors of the early period

Who were the other leading accounting authors who identified the parties for whom companies’ financial statements were being prepared? In the first edition of the Accountants’ Handbook (Saliers 1923, p. 321), it was stated that chief among the purposes of financial statements was to meet the requirements of management, investors and governmental regulations. Curious was the omission of creditors. Nine years later, the second edition of the Accountants’ Handbook (Paton 1932, p. 6) elaborated on that earlier set: financial statements were prepared to meet the requirements of ‘management in controlling operations and securing credit’; investors, present and prospective; government ‘in connection with taxation and regulation’; and ‘organizations such as trade associations’. Henry Rand Hatfield, ever the careful student of practice and annotator of the literature, wrote in 1927, ‘The present, and still more the future, is what really interests the investor; the past is dead, and the investment made therein is, in ordinary competitive enterprises, of little effect in determining present values or future earnings. The liquidation value is of significance to the creditor’ (p. 74). He added, ‘it might perhaps be said that the balance sheet is primarily of interest to the creditor of a concern….The profit and loss statement is primarily of interest to the owner in contradistinction to the creditor’ (p. 240).

The debate over the purposes of financial statements has had a loose connection with two competing conceptions of the financial statements, representing either the ‘proprietary theory’ or the ‘entity theory’, a distinction which goes back to the nineteenth century (Littleton 1933, chaps. XI and XII). One aspect of that distinction was, ‘who is to be the beneficiary of the financial statements?’, or ‘for whom are the financial statements being prepared?’ The proprietary theorists said that the financial
statements of a corporation were prepared for benefit of the shareholders, namely, the proprietary equity. William A. Paton was the most articulate advocate of the entity theory, which he called ‘the managerial point of view’ in his well-known book, *Accounting Theory* (Paton 1922a, p. 52). He argued that, for the corporation, which he called the ‘business enterprise par excellence’ (pp. 19, 45), common and preferred shareholders as well as bondholders all assumed risks and their equities blended into one another: they all were suppliers of capital. The question he posed was, ‘Shall accounts and transactions be classified and analyzed from the standpoint of the entire business enterprise as an operating unit, or shall accounting principles be presented in terms of a single interest, the proprietary?’ (p. 52). His ‘managerial point of view’ focused on the former of these two.

Thereupon Paton argued that the income statement should be drawn up to show a ‘net revenue’, or net income, accruing to all equities in the assets, that is, all capital suppliers, which included the holders of notes and bonds as well as shareholders. This is a similar position to that taken in recent years by many who claim that the objective of financial reporting is to provide accounting information to investors in debt and equity securities. Paton, when proposing to report all income-bearing capital suppliers, argued that interest charges should be displayed as a distribution of net income, not as an expense in arriving at net income. Interest is, after all, the income to creditors (chap. XI). Today, virtually no one claims that interest charges should be shown in the income statement as other than an expense. Yet Paton’s position is logically defensible if net income is to be defined by reference to investors in debt and equity securities. Paton also regarded government as a stakeholder, and he showed ‘Federal Income and Profits Taxes’ as a distribution of net income (p. 269). In section 4.2 I will discuss the value added statement, which focuses on the interests of the various stakeholders in gross profit.

There was no consensus among the leading authors, but references to management and investors as the primary users, usually with a specific reference to shareholders, seemed to predominate during this early period. The interest of banks as creditors seemed to be confined to special purpose reports, that is, those submitted to banks. It might be assumed that banks had the power to require such financial information as they needed. Nonetheless, the recommendations contained in the Federal Reserve Bulletin of April 1917 probably had much wider application than just for financial reports intended for banks.

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13 Paton’s view is consistent with Modigliani and Miller’s (1958) fundamental theorem that (absent tax differentials etc.) the value of a firm is unaffected by how that firm is financed and whether its distributions are paid as interest or dividends.

14 It is interesting that interest charges and dividends are shown together, as payments to the providers of capital, in the value added statement illustrated in *The Corporate Report* (1975, p. 50) – see section 4.2.
2.4. An important early article on ‘objectives’ (1929)
An early attempt, praised by Geoffrey Whittington (1980, 233), to link accounting information to the needs for different types of decision was H. C. Daines’ thoughtful and wide-ranging article, ‘The Changing Objectives of Accounting’ (1929), where he referred to ‘the ordinary investor or other lay reader of a balance sheet’ (p. 97) and management itself as the primary users. To Daines, ‘one of the objectives of accounting should be to record accurately and fearlessly, the entire facts with respect to present financial conditions’ (p. 97). He then considered four bases of valuation to achieve that end – liquidation value, historical cost, capitalized income producing value, and replacement cost – and he advocated using the market prices of replacing or reproducing a similar asset, and, borrowing from Howard C. Greer (1928), he was agreeable to showing the balance sheet with columns for historical cost and current value (p. 102). His was a ‘representationalist’ view. When commenting on the state of accounting practice, he observed tartly that, contrary to the Congressional income tax legislation instructing the Treasury Department to be guided by ‘good accounting practice’, the reverse had occurred: it had become good accounting practice to follow the rulings of the Treasury Department (pp. 103-104).

2.5. From the Securities Acts of 1933-34 onwards
The passage of the Securities Act of 1933 and the Securities Exchange Act of 1934 may well have contributed to changing the dialogue over the stated purpose and users of published financial statements. The 1934 Act created the Securities and Exchange Commission (SEC), whose mandate has been the protection of investors. The term ‘investors’ has meant investors in both debt and equity securities. When it became clear that the SEC was looking to the organized accounting profession for ‘substantial authoritative support’ for proper accounting practice under the Securities Acts (Zeff 1972, pp. 130-139), the profession’s attention naturally shifted towards reporting to investors as thus defined. Stephen Gilman (1939, p. 27), in his comprehensive book, Accounting Concepts of Profit, wrote, ‘Until recently, the creditor’s interest in accounting matters, and his demands for accounting information, were regarded as more important than the enlightenment of the permanent investor’. He added, ‘The awakened interest in the investor’s viewpoint has constituted a most important force, tending to shift accounting emphasis from the balance sheet to the profit and loss statement’ (p. 28). The US federal income tax law, first approved in 1913, had an impact on this shift in emphasis, especially
section 212(b) of the Revenue Act of 1918, which provided that net income shall be computed ‘in accordance with the method of accounting regularly employed in keeping the books of [the] taxpayer’. And, as noted in section 2.2, the New York Stock Exchange invited the American Institute of Accountants in 1930 to recommend sound principles of accounting to be used by listed companies when reporting to investors, which was another factor.

2.5.1. Series of statements from the American Accounting Association

Following creation of the SEC in 1934, which had been given authority to determine the form and content of financial statements required to be filed with the Commission, there was a rush to provide guidance to the SEC on what constituted best accounting practice, lest the Commission or its staff decide for themselves what was proper practice, which came to be called ‘generally accepted accounting principles’. In 1936, the executive committee of the American Accounting Association, led by Eric L. Kohler, William Paton, and A. C. Littleton, published ‘A Tentative Statement of Accounting Principles Affecting Corporate Reports’ as a guide to the SEC in developing the accounting principles it would expect in filings. It said,

> The basic assumption made here is that a corporation’s periodic financial statements should be continuously in accord with a single coordinated body of accounting theory, and that the purpose of the statements is the expression, in financial terms, of the utilization of the economic resources of the enterprise and the resultant changes in and position of the interests of creditors and investors. Accounting is thus not essentially a process of valuation, but the allocation of historical costs and revenues to the current and succeeding fiscal periods. (p. 188)

It is not at all clear how the committee reached the conclusion that historical costs should govern accounting based on its stated purpose of financial statements. Perhaps the implication was that the committee saw accounting as a stewardship function, but they did not use this terminology. An alternative reading is that the committee was taking a ‘representationalist’ view.

In 1940, Paton and Littleton published their hugely influential monograph, An Introduction to Corporate Accounting Standards, which was intended to be an elaboration on the AAA’s 1936 statement. Like its forebear, it was a paean to historical cost accounting. They wrote in a headnote, ‘The

15 Kohler (1963, p. 39) and Littleton (see below) were supporters of the stewardship view, coupled with strict historical cost accounting, while Paton favoured the use of current values. This difference may not have led to easy discussions within the committee.
purpose of accounting is to furnish financial data concerning a business enterprise, compiled and presented to meet the needs of management, investors, and the public’ (p. 1). By investors, they meant to encompass shareholders and creditors – that is, all capital suppliers, as used by Paton in his 1922 book, Accounting Theory. They added, ‘The corporation’s most important responsibility...does not run to one or more owner-operators for each enterprise, but rather to one or more groups or classes of detached investors, present and prospective’ (p. 2). They got round to stewardship much later in their monograph: ‘it seems best to establish standards of corporate reporting upon the assumption that a fiduciary management is reporting to absentee investors who have no independent means of learning how their representatives are discharging their stewardship’ (p. 98). While the authors’ advocacy of historical cost accounting dominated Chapters I through VI (through page 117) as the principal application of their stated purpose of accounting, Chapter VII, entitled ‘Interpretation’, which Paton wrote by himself with Littleton’s consent (Paton 1980, p. 629), espoused the introduction into the accounts of plant appraisals. The depreciation charge was to be based on the appraised value, but the portion of the charge which related to the appraisal increment would be offset by a transfer from appraisal surplus, so that the net income would be faithful to historical cost (pp. 130-139). He also advocated in times of serious price inflation the inclusion of ‘a special report supplementing the usual periodic statements and designed to trace the main effects of general price movements upon the affairs of the enterprise’ (p. 141). Littleton would not have agreed with either of these two recommendations, but they do form part of the contents of the monograph. It is probably fair to say, however, that Chapter VII was much less widely read than the first six chapters of the monograph, on historical cost accounting.

In the AAA executive committee’s ‘restatement’ of its views, published in 1941 (‘Accounting Principles Underlying Corporate Financial Statements’ 1941, p. 134), ‘The Basic Assumption’ began as follows: ‘The purpose of periodic financial statements of a corporation is to furnish information that is necessary for the formulation of dependable judgments. A knowledge of the origin and expiration of the economic resources of a company and the resultant changes in the interests of its creditors and investors is essential to this purpose’. Like the 1936 statement, this one also espoused ‘the cost principle’, which meant historical cost accounting. A difficulty one encounters when trying to trace the logical links between ideas and recommendations in statements by committees is, as we will see again later, that they inevitably reflect positions which were the result of unrevealed compromises. And sometimes, one suspects, the policy recommendations are agreed first (eg, the cost principle) and then the committee erects the superstructure of explanation around it.
Another restatement was published in 1948, ‘Accounting Concepts and Standards Underlying Corporate Financial Statements: 1948 Revision’, which was drafted in the first instance by a special AAA committee (ie, not by the executive committee), and in which the lone reference to the user focus, ‘the point of view of stockholders’, was relegated to a footnote. This restatement also affirmed the cost principle.

The one shining light in the series of AAA committee statements, as Staubus brings out (1977, pp. 23-24), was Supplementary Statement (to the 1948 revision) No. 8, ‘Standards of Disclosure for Published Financial Reports’, issued in 1954 (Accounting and Reporting Standards... 1957, pp. 46-50). After enumerating several potential users of corporate reports (‘governmental agencies, short- and long-term creditors, labor organizations, stockholders, and potential investors’), the committee concluded that, as ‘the needs of these groups cannot be served equally well by a single set of statements, the interest of some one audience should be identified as primary. Traditionally, this has been the stockholder group’ (p. 47). The committee then proceeded to justify its several disclosure recommendations by frequent reference to the needs of investors (oddly, not ‘stockholders’). This disconnect notwithstanding, the committee’s thinking accorded with ‘stockholders’.

The AAA’s 1957 revision of the statement covered broader ground, and it recommended supplementary disclosures, when appropriate, ‘to reflect the effect of price changes in the specific assets held by the enterprise during the period’, as well as ‘the effect upon the enterprise of movements in the general price level’ (Accounting and Reporting Standards... 1957, p. 9). Of particular interest was the Patonian touch, undoubtedly driven by committee member Sidney Davidson, one of Paton’s leading disciples, that there should be two levels of reported income: enterprise net income and net income to shareholders (p. 5). The former, à la Paton, would be drawn before the subtraction of interest charges. The inference to be drawn was that, while reporting to shareholders was an important focus, it was not the only focus. The committee said that its role was to ‘suggest standards to which general-purpose reports to stockholders and others interested in corporate business enterprise should conform’ (p. 1), and they meant it. In the preface to its lengthy discussion of disclosure, the committee drew on Supplementary Statement No. 8: ‘the use by investors of published financial statements in making investment decisions and in exercising control over management should be considered of primary importance’ (p. 7). Note the joining of investor use and stewardship. In its subsequent discussion of desirable disclosures, the committee referred several times to investors, but not as tellingly as in Supplementary Statement No. 8. Three members of the seven-member committee for the supplementary statement also were on the seven-member committee for the 1957 revision: Robert K.
Mautz chaired the latter and served on the former, Thomas M. Hill chaired the former and served on the latter, and Maurice Moonitz was a member of both committees.

2.5.2. The Sanders, Hatfield and Moore monograph (1938)

In 1935, the Haskins & Sells Foundation (the foundation established by the audit firm of Haskins & Sells) also sought to influence the SEC’s thinking on best accounting practice. It invited Thomas H. Sanders, Henry Rand Hatfield, and Underhill Moore – two highly respected accounting academics and a law academic¹⁶ – to prepare a monograph on what constitutes sound accounting practice. In their resulting monograph, *A Statement of Accounting Principles*, which was published by the American Institute of Accountants (1938, p. 4), they enumerated the parties interested in financial statements as follows¹⁷:

(a) the management of the business,
(b) outside groups, such as investors and creditors,
(c) government, in such matters as taxation and regulation.

This listing of parties interested in the financial statements may have been drawn from those enumerated in the first and second editions of the *Accountants’ Handbook*,¹⁸ above, and, again, shareholders (or owners) were not distinguished from the broader class of investors. The authors stated that the financial statements were to (1) facilitate ‘the orderly division of [the company’s] income among the contributors’, (2) assist ‘even the most constructive and imaginative efforts of the executives, which efforts must be based upon a clear understanding of the financial condition, cost of operation, and resulting income of the business’, (3) contribute to ‘the determination of the various equities or interests in business’, and (4) facilitate ‘compliance with the various statutory requirements’ (pp. 1-2). This was not an easy co-authorship for Hatfield, as he found himself at odds time and again with Sanders (see Zeff 2000, pp. 170-180).

¹⁶ In fact, the original law academic invited by the Foundation was William O. Douglas. But when he was appointed to the SEC in January 1936, Moore, his colleague at Yale University, succeeded him.
¹⁷ The authors’ characterization of ‘investors’ as outsiders is curious. Are shareholders, ie, actual investors, to be regarded as outsiders?
¹⁸ It was impossible to trace the sources of the authors’ recommended practices. Virtually all of the many source notes at the end of the monograph were to statutes, court opinions, and legal treatises, undoubtedly supplied by Moore, the lawyer. Hatfield wanted to cite the views of leading accounting academics and practitioners as support, but Sanders, the lead author on the project, demurred (Zeff 2000, p. 178).
Storey (1964, p. 31) wrote that the monograph was ‘the first relatively complete statement of accounting principles and the only complete statement reflecting the school of thought that accounting principles are found in what accountants do – the school which emphasizes the accepted part of “generally accepted accounting principles”’. A copy of the monograph was sent to every Institute member, which probably did much to enhance its influence.

2.5.3. The ‘authoritative’ literature from the American Institute of Accountants (1939-59)

In 1939, the American Institute of Accountants’ part-time Committee on Accounting Procedure (CAP) began issuing Accounting Research Bulletins (ARBs) to provide the SEC with ‘substantial authoritative support’ for accounting principles (see Zeff 1972, pp. 132-139).19 George O. May, the vice-chairman of the CAP, functioned as its de facto chairman.20 In ARB No. 1, ‘General Introduction and Rules Formerly Adopted’, issued in September 1939, which May very likely drafted himself, the CAP wrote, rather grandly, ‘The test of the corporate system and of the special phase of it represented by corporate accounting ultimately lies in the results which are produced. These results must be judged from the standpoint of society as a whole – not from that of any group of interested parties’ (p. 1). The CAP felt so strongly about this dictum that it was invoked again in ARB No. 13, ‘Accounting for Special Reserves Arising Out of the War’ (1942, p. 157). Yet the CAP also wrote in ARB No. 1, ‘In the last forty years the outstanding change in the working of the corporate system has been an increasing use of it for the purpose of converting into liquid and readily transferable form the ownership of large, complex, and more or less permanent business enterprises….As a result of this development in the field of accounting, problems have come to be considered more from the standpoint of the current buyer or seller in the market of an interest in the enterprise than from the standpoint of the continuing owner’, and the CAP counseled, ‘accounting must have due regard’ for this change (pp. 1-2). So it’s not clear just what the CAP believed was the objective, or focus, of accounting: the standpoint of society as a whole, or the current buyer or seller in the market. The CAP continued to say in ARB No. 1 that one manifestation of this shift in emphasis from stewardship (without mentioning this term) to investor reporting ‘had been a demand for a larger degree of uniformity in accounting’. Another manifestation ‘has been increased

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19 All of the Accounting Research Bulletins issued from 1939 to 1953, including the reports of the committee on terminology during that period, have been compiled in Zeff and Moonitz (1984, vol. I). The full text of all of the ARBs may be downloaded from the digital collections of the University of Mississippi. See http://en.wikipedia.org/wiki/Accounting_Research_Bulletins.
20 From 1939 to 1941, the Institute’s president was ex officio chairman of the committee, although May, in practice, sat in the chair. May served as de facto chairman for two years and then remained on the committee for another four years. Paton and Littleton were two of the three academics serving on the committee.
recognition of the significance of the income statement, with a resulting increase in the importance attached to conservatism in the statement of income, and a tendency to restrict narrowly charges to earned surplus’ (p. 2). All of this testifies to a ‘representationalist’ view of accounting.

I have reviewed all of the 37 ARBs, omitting the advisory reports of the committee on terminology, which were issued by the CAP from 1939 to 1953, when the contents of these bulletins were restated, revised, and consolidated into ARB No. 43 (Committee on Accounting Procedure 1953). In all of those 37 bulletins, I could find only seven mentions of classes of users: ‘stockholders’ (2 instances); ‘stockholders, employees, and the general public’ (1); ‘investors’ (1); ‘new purchasers of securities’ (1); and ‘management’ (1). Of the 37 bulletins, only six contained a reference to one or more classes of users. In addition, there were five generic references to ‘users’ and four to ‘readers’.21 Without a doubt, there was no systematic attempt by the CAP over the years to explain its accounting practice recommendations in terms of the information needs of any single class, or consistent set of classes, of users, even if that class were to be ‘society as a whole’.

In 1939, William Paton, one of the three academic members of the CAP, said that the Institute’s research department, which provided the staff support for the development of ARBs, ‘is approaching its study of principles from the point of view of corporate reports, particularly those issued to stockholders’ (1939, p. 231). Yet in a report of the CAP’s subcommittee on the income statement, probably drafted by the staff, the entire focus was on informing investors, not just stockholders (‘Nature and Purpose of the Income Statement’ 1945).

The CAP issued a number of additional ARBs from 1953 to 1959, when it was succeeded by the part-time Accounting Principles Board (APB), a senior technical committee of the American Institute of Certified Public Accountants (AICPA) (until 1957 known as the American Institute of Accountants).

2.5.4. The views of A. C. Littleton on stewardship

A.C. Littleton was a strict historical coster who was the leading inductive theorist of the period. In his AAA monograph, Structure of Accounting Theory (1953), his magnum opus, it is not easy to discover his purpose for accounting, because he stated and restated it with variations, depending on the stage of his argument. Perhaps the following is the most representative and the most over-arching: ‘The central purpose of accounting is to make it possible for men to reach a calculated judgment of the success of the enterprise in rendering its services’ (p. 34). This strikes one as a ‘representationalist’ view in the mode of giving ‘a true and fair view’. Earlier in the monograph he had written,

21 Four of the five references to ‘users’ were in a single bulletin.
Accounting statements tell of the accountability of corporate management for property placed under their control by third parties; of their responsibility for the proper use of money borrowed under a liability; for the costs incurred and the dividends declared. Accounting information also affords a basis for determining governmental revenue – property taxes, excise taxes, income taxes. Clearly accounting is an important means of communication in modern industrial society. To serve this purpose well, accounting information must be skillfully compressed out of a mass of facts; it must be dependably factual, informative and reliable. (p. 15)

In a later chapter (pp. 79-81), he expounded on the role of financial statements as reports of managerial stewardship. At various places in Littleton’s monograph, one infers that the principal users were management and proprietors (sometimes investors).

Littleton, a student of accounting history, pointed to two recent developments that ‘helped to shift the spotlight [from the balance sheet] to the income statement’:

After the nineteen-twenties American business seems to have been less interested than formerly in short term bank loans as a large source of funds, preferring instead to use long term issues of stocks and bonds. Because bank loans very naturally focused attention upon short-run financial position (ability to pay debts), the balance sheet seemed entirely adequate to that purpose, and for the same reason provided the framework for the independent auditor’s work of verification. Long-term securities however rest more upon earning power than on asset liquidity. For that reason a series of income statements presents a more important item of information relative to security financing than do balance sheets. (pp. 90-91)

The other recent development, according to Littleton, was the changes in corporation laws that placed more emphasis on earned surplus (retained earnings) as the dividend base, which led to greater attention being paid to the earnings reported in successive years’ income statements (p. 91).22

2.5.5. The views of Yuji Ijiri on accountability

22 Littleton referred to modification of the dividend provisions in a number of state corporation laws since 1927, begun by Delaware, towards permitting dividends to be declared out of current net earnings. For a discussion of these provisions, see Zeff (1961, pp. 745-749).
Yuji Ijiri (1975, chap. 3), like Littleton, adopted an inductive approach. He observed that ‘current accounting practice is still oriented toward historical communication on a caveat emptor basis’ (p. 31). When a person uses someone else’s money in a business, he has a ‘contractual (or at minimum moral) obligation to account for how the money was spent and how it was earned…Viewed in this manner, accountability has clearly been the social and organizational backbone of accounting for centuries’ (p. 32). He then argued, ‘it appears to be extremely useful to interpret current accounting practice in the light of accountability, and this is the approach we shall take in this book’ (p. 33). There is the accountor (the entity) and the accountee (the group that receives the entity’s performance measures). ‘Accounting measurement may then be characterized as primarily economic performance measurement’ (p. 34). And then, ‘to protect both the accountor and the accountee from the abusive use of performance measures, the measurement used must be highly standardized and verifiable so that there is little room for dispute over a performance measure that is generated by an accounting system’ (p. 35). ‘[I]n order to limit the room for dispute, three ingredients are necessary’: ‘the measurement process must begin with verifiable facts’, it ‘must be well-specified’, and ‘the number of justifiable rules should be restricted’ (p. 36).

‘Therefore, hard measurement [which goes beyond ‘objectivity’] may be stated as the processing of verifiable facts by justifiable rules in a rigid system which allows only a unique set of rules for a given situation’ (p. 36). Ijiri’s framework is a rigorous theory for stewardship reporting with the use of historical cost. He belonged to the ‘functionalist’ school: accepting restrictions on ‘representation’ because of the function of the numbers in resolving conflicts of interest.

Ijiri’s measurement system was integrally linked to his purpose of financial reporting. This kind of linkage, as indicated above, was rarely found in the literature produced by earlier authors and by the CAP. Indeed, in the case of quite a few of the sources cited above, it is impossible to discern the linkage between their statement of purpose (and selection of users and uses) and their accounting policy recommendations.

2.5.6. The APB’s Accounting Research Studies on postulates and principles (1961, 1962)
In 1961, Maurice Moonitz, at the invitation of the recently formed Accounting Principles Board (APB), wrote a monograph entitled The Basic Postulates of Accounting. It was to form the basis of what we today call a conceptual framework. Very much in the mode of the ‘true income’ (or a priori) theorists of the 1950s and 1960s (Nelson 1973), Moonitz declared that the measurement of income, which, he said, occupied the central position in accounting, ‘should be directed at the question – has our wealth increased, decreased, or remained the same?’ (pp. 15-16). As to the users of the accounting reports, he
said, ‘We cannot proceed on the premise that accounting is the monopoly of any one group, whether that group is concerned mainly with the development of the accounting process or with its end-product in the form of financial statements and reports’ (p. 5). This was transparently an avowal of the ‘representationalist’ view. Leonard Spacek, the outspoken managing partner of Arthur Andersen & Co., who served on the advisory committee for the postulates study, commented at end of the study that, in his view, ‘the one basic accounting postulate underlying accounting principles may be stated as that of fairness – fairness to all segments of the business community (management, labor, stockholders, creditors, customers and the public)’ (p. 57), a view which he and his firm frequently reiterated in speeches and publications. However, as David Solomons has written, ‘no such ethical concept [ie, fairness] can help us to resolve differences between conflicting views as to what constitutes correct accounting’ (1962, p. 22). Spacek and Moonitz would agree on one point: that no one user is paramount to the others.

Moonitz’s thinking carried forward into his follow-on monograph, co-authored with Robert T. Sprouse, A Tentative Set of Broad Accounting Principles for Business Enterprises (Sprouse and Moonitz 1962), where it was stated that ‘the principles of financial accounting that are developed in this study are designed to meet the needs of all interested groups’, which they said included ‘owners, creditors, government, and others with bona fide interests’ (p. 1). Yet I could find only two places in the study where the authors invoked classes of users in the analysis leading towards their recommended methods of measurement: management and investors (p. 17) and stockholders and creditors (p. 42). SEC chief accountant Andrew Barr’s categorical rejection of Sprouse and Moonitz’s advocacy of departures from historical cost accounting (p. 60), which the APB itself felt bound to confirm when it formally rejected the study, surely had a chilling effect on attempts by the standard setter to explore options to historical cost.

I have reviewed the ‘Opinion’ sections (ie, the Board’s recommendations) of the APB’s 31 Opinions issued from 1962 to 1973, and I could find only four Opinions where the Board named any user group: ‘investors and others’ (No. 15 on earnings per share), ‘financial statement users, particularly owners and creditors’ (No. 19 on fund statements), ‘potential investors’ (No. 20 on accounting changes), and both ‘investors and others’ and ‘securityholders’ (No. 28 on interim financial reporting). In five other

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23 For a discussion of the undeviating opposition by the first four SEC chief accountants, including Barr, to upward departures from the historical cost of tangible assets from the 1930s to 1972, see Zeff (2007). Two of Barr’s predecessors as chief accountant, Carman G. Blough and William W. Werntz, also wrote comments in the study in which they rejected the authors’ recommendations (pp. 60-63, 79-82).

24 The full text of the APB’s Opinions may be downloaded from the digital collections of the University of Mississippi. See http://en.wikipedia.org/wiki/List_of_APB_Opinions.
Opinions, only the generic term ‘users’ was found. Hence, in the remaining 22 Opinions there was no reference, even generically, to users. I therefore repeat my comment on the similar record compiled by the CAP between 1939 and 1953: there was no systematic attempt over the years to explain its accounting practice recommendations in terms of the information needs of any single class, or consistent set of classes, of users. As with the CAP bulletins, the APB Opinions were explicitly or implicitly ‘representationalist’.

George J. Staubus (1977, p. 14), the first exponent of ‘decision usefulness’, lamented that ‘The most fundamental literature of the accounting profession has paid very little attention to objectives [as we today understand the term]’ until 1970, when the APB issued Statement No. 4, ‘Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises’. This was the first time that the Board had signaled an interest in stating objectives. Staubus added, ‘The significance of this background [ie, the ‘authoritative’ literature promulgated by the CAP and APB in their pronouncements up to 1970] to our current situation should be apparent if we remember that nearly all of our current GAAP were solidified before the profession became interested in objectives’ (p.16).

What can be learned from the foregoing review of various authors’ identification of the purposes of financial statements? Each author or set of authors staked their own claim without reference to what previous authors had written. There was little, if any, attempt to build on previous writings, as if each author were perfectly free to say whatever he thinks.

3. US literature on objectives: Emergence of the decision-usefulness objective

3.1. Staubus on ‘decision usefulness’ (1961)

As indicated above, the earliest exponent of the decision-usefulness approach to accounting theory and standard setting was George Staubus, an accounting professor at the University of California, Berkeley. He first developed the approach in his doctoral thesis, ‘An Accounting Concept of Revenue’, completed in 1954 at the University of Chicago under the supervision of William J. Vatter. Staubus had been frustrated after reviewing the accounting literature to find, as he wrote in 1961, ‘that surprisingly little attention has been paid to the objective of providing information for investment decisions’ (p. 3). Based on my review of the US literature earlier in this article, I would echo what Staubus wrote. He added, ‘Accounting writers frequently mention owners, stockholders, creditors, or some other subclassification of investors as readers of financial statements, but they seem to have made no special effort to show

25 There were occasional descriptive references to ‘annual reports to stockholders’, which I interpreted as a ‘boilerplate’ description of the annual report in which the financial statements are included.
the relation between accounting and the problems facing investors. Rather, they have assumed that there is a relation without having bothered to analyze the problems of investors with a view to specifying just what information can be provided by accountants and also useful to investors’ (p. 3). All but a few previous writers, including especially most of the AAA committees, the CAP, and the APB, had either disregarded the need to state objectives, or, when they did identify supposed users of accounting information, they made no systematic effort to demonstrate how the recommended accounting practices gave effect to the users’ decisions. It is as if the identification of supposed users was, like the dedication to a book, something that is nice to have but which typically possesses no operational importance. Of course, previous writers’ ‘representationalist’ stance made an explicit link with user decisions less important. Also, as noted above, past writers had made no evident attempt to build on the work of others or, indeed, even to acknowledge the work of others, on what should be the purposes or objectives or users of financial statements. Each author set his own objectives, sui generis.

Even before publishing his book on the decision-usefulness objective, *A Theory of Accounting to Investors* (1961), Staubus wrote two articles in *The Accounting Review* which dealt with his theory. In one article (1958, p. 15), he wrote a lengthy critique of the AAA’s 1957 principles statement. While he regarded it as an improvement over its 1948 predecessor, he criticized the drafting committee for not giving central attention to the objectives of financial statements, including identification of the users and their information needs. In the other (1959, p. 4), he wrote that the ‘central objective of published financial statements is the presentation of information which will be useful in making investment decisions’. That leads to the need by investors to predict the firm’s cash flows and then, in turn, to the concept of residual equity. This was a call for ‘functionalism’ in the setting of the objective.

In the 1961 book, where he presented his fully fledged decision-usefulness framework, Staubus stated the generic decision-usefulness objective: ‘The purpose of accounting is to provide information which will be of assistance in making economic decisions’ (p. 11). He then illustrated how the decision-usefulness objective would be applied to the investment decision and concluded that the accounting information that will be of assistance in making investment decisions ‘must be information related to the times and amounts of investors’ future cash receipts as a result of the investment relation’ (p. 15). The remainder of the book was devoted to developing new accounting analyses and forms of financial statements that would provide evidence to enable the investor to predict future money movements and changes in residual equity – essentially, the company’s future capacity to pay investors. The systematic development of a scheme of such analyses and financial statements to enable the investor to make

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26 For a list of his publications, see Staubus (2000, pp. 343-345).
rational investment choices – that is, to give effect to the objective of accounting – is what had been missing from most of the previous literature. In subsequent writings, Staubus continued to refine his decision-usefulness framework, and in a ‘limited history’ published in 2000 he reviewed the various steps in its development.\(^{27}\) His was a coherent theory which effectively linked decision usefulness to the information required to make investment decisions: using discounted future cash flows as the most relevant attribute of assets and liabilities.\(^{28}\)

### 3.2. AAA’s A Statement of Basic Accounting Theory (ASOBAT) (1966)

The first sign of institutional acceptance of the decision-usefulness objective was in A Statement of Basic Accounting Theory (ASOBAT) issued by a nine-member AAA committee in 1966. The charge to the committee from the AAA executive committee stated, ‘The committee should not feel bound in any way by the format or content of previous statements issued by this or other organizations’ (p. v).\(^{29}\) Staubus later wrote that the ASOBAT committee ‘bought the decision-usefulness approach lock, stock, and barrel’ (1977, p. 25). The committee did not refer to any previous literature. Indeed, Paul E. Fertig (1967, p. 670), a member of the committee, subsequently disclosed that it did not even conduct a literature search. He said that its statement of accounting objectives ‘is based on the committee’s observations of the society in which accounting functions, and establishes usefulness of information as the basic criterion by which accounting information is judged’ (p. 666).

Staubus (2003, pp. 165-166) has speculated that George H. Sorter, of the University of Chicago, who had reviewed A Theory of Accounting to Investors in the January 1963 issue of The Accounting Review and may have read Staubus’ doctoral thesis, imported decision-usefulness to the committee, on which he served as an influential member, but Sorter contests this explanation.\(^{30}\) In a 1961 article co-authored with Charles T. Horngren, Sorter wrote, ‘Accounting is a tool for decision-making by managers,

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\(^{27}\) A helpful discussion and synthesis of the decision-usefulness approach, drafted by Staubus, appears in Statement on Accounting Theory and Theory Acceptance (Committee on Concepts and Standards 1977, pp. 10-21). The point was made that, in such major theoretical works as Canning (1929), MacNeal (1939), and Chambers (1966), the authors ‘apparently rejected the idea of basing an accounting theory on the decision models of specific user groups’ (p. 12).

\(^{28}\) Young (2006) argues that decision usefulness, as used in US conceptual frameworks, leads to the construction of users who desire only the information that the framework has stated is of interest to them, a circumstance which impedes the development of a broader societal role for accounting.

\(^{29}\) By coincidence, the AAA president for 1965, Robert Mautz, and the president for 1965-66, Herbert E. Miller, both of whom signed the preface, had chaired the AAA principles committees in 1957 and 1948, respectively. The supervisor of Sorter’s doctoral thesis at Chicago was also William Vatter. I have queried Sorter about this speculation, and he replied that he never read Staubus’ doctoral thesis and does not remember his review of Staubus’ book. Communication from George Sorter, dated July 18, 2012.
investors, and all interested parties. Usefulness for decision-making thus becomes the overriding criterion for judging external financial reports’ (p. 86). Sorter was therefore already a ‘believer’ and may well have been the driving force within the committee behind the decision-usefulness approach. In correspondence, Sorter has said, ‘To the best of my recollection we all agreed from the start on the decision usefulness objective as paramount. Our charge from the start was to start anew and ignore past statements. I never thought then or now what else could justify financial reports’.31

The committee defined accounting ‘as the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of that information’ (p. 1) By its definition of accounting, the committee said it ‘envisages application of the accounting process not only to business operated for profit but also to the activities of individuals, fiduciaries, governmental units, charitable enterprises, and similar activities’ and also the ‘communication of economic information to internal management as well as to external users’ (p. 2).

‘The objectives of accounting’, the committee went on to say, ‘are to provide information for the following purposes’:

1. Making decisions concerning the use of limited resources, including the identification of crucial decision areas, and determination of objectives and goals.
2. Effectively directing and controlling an organization’s human and material resources.
3. Maintaining and reporting on the custodianship of resources.
4. Facilitating social functions and controls. (p. 4)

The committee mentioned stockholders and creditors as among the beneficiaries of accounting information, and said it equated custodianship with stewardship (p. 5). It asserted that, with respect to managerial stewardship in the case of boards of directors in profit-seeking enterprise, ‘The interests of society are paramount in defining this function and have been expressed in the corporation codes of the various states’ (p. 5). Yet I suggested in section 2.1 that the state legislatures have hardly been vigilant in giving effect to genuine stewardship in US corporate society. The committee discussed the general principle of the stewardship relationship, in which it ventured the view, ‘Accountants can prepare meaningful reports of stewardship only to the extent that they are aware of or can postulate accurately

31 Communication from George Sorter, dated July 18, 2012.
the provisions of the agreement between the parties to the stewardship arrangement’ (p. 26). This represented a sound ‘functionalist’ view.

The committee added, ‘Although accounting has often been thought of as essentially historical in nature, it is important to recognize that emphasis upon those accounting techniques that deal with future plans and expectations has been increasing, and that this trend may be expected to continue’ (p. 5). This forward-looking focus certainly set this committee apart from AAA committees that had been issuing statements on accounting principles from 1936 to 1957. For the AAA, this was revolutionary thinking.\(^3\)

Then, rather than immediately applying these objectives to pronounce on the propriety of accounting methods and practices (as so many previous authors had done), the committee instead identified and discussed four ‘standards for accounting information’ (relevance, verifiability, freedom from bias, and quantifiability) and then proposed five ‘guidelines for communicating information’ to employ as criteria to implement the objectives and standards. This was a refreshing methodology which set the stage for the committee’s next step in Chapter III, ‘Accounting Information for External Users’, where it made general recommendations and then ‘additional specific recommendations’ on eight controversial accounting problem areas in the light of these two levels of criteria. The committee concluded that historical-cost information was relevant but not adequate for all purposes, and it recommended that both historical-cost and current-cost information be reported.\(^3\) It went on to illustrate a full set of dual-column financial statements. Nowhere in the external reporting section of the report was conservatism mentioned.

Robert R. Sterling, in a review of ASOBAT, welcomed the committee’s ‘new methodology and world-view’, but he took issue with the way the committee had implemented it to justify reporting current cost in addition to historical cost (Sterling 1967a).\(^3\) The committee’s advocacy of current cost accounting as a valuation base stirred critical emotions among the many academics and practitioners who were weaned on the Paton and Littleton (1940) monograph. I remember being at a well-attended session during the AAA’s 50th anniversary annual meeting in Miami in September 1966, when the

\(^3\) The AAA’s president charged a committee to review companies’ external reporting practices in the light of ASOBAT recommendations (Committee on External Reporting 1969).

\(^3\) The recommended use of current costs provoked a dissent from the lone practitioner on the nine-member committee, Russell H. Morrison, of Arthur Andersen & Co. He said, ‘in my judgment there have yet to be devised feasible and acceptable methods for objectively determining current cost, except perhaps in such areas as marketable securities’ (p. 98).

\(^3\) By then, Sterling was well along towards writing his treatise advocating the use of exit prices, which was published in 1970.
ASOBAT committee presented and explained its report. Andrew Barr, the SEC’s chief accountant since 1956, was there. His intervention was brief. He announced to those assembled, in his usual categorical manner, that the SEC will not accept registrants’ filings which are predicated on the use current cost in the financial statements.

Three years later, George Sorter expressed an alternative view to the ASOBAT report. He disavowed the ‘user need’ school, at the aggregate level, which favors one or another class of ‘values’ for use in a single set of financial reports to be used by all parties. He argued that, because the variety of users’ decision models is unknowable, accounting should provide ‘information about relevant economic events that allows individual users to generate their own input values for their own individual decision models’, which he called an ‘events’ approach to basic accounting theory (1969, p. 13).³⁵ Was this a return to a ‘representationalist’ view?

3.3. APB’s Statement No. 4 on basic concepts and accounting principles (1970)

The next institutional validation of the decision-usefulness objective appeared in the Accounting Principles Board’s Statement No. 4 (a non-mandatory pronouncement), ‘Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises’ (1970). Work on the project had begun in 1965-66, and the resulting publication was intended to reach a broad audience and not just professional accountants. Initially, this was the Board’s attempt to provide a conceptual basis for future pronouncements, because in 1962 it had peremptorily rejected the ‘radical’ recommendations (net realizable value or replacement cost for inventories, replacement cost for plant and equipment, present value for long-term liabilities) in the Sprouse and Moonitz Study No. 3.

In chapter 4, ‘Objectives of Financial Accounting and Financial Statements’, the Statement said that ‘The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a business enterprise that is useful to statement users, particularly owners and creditors, in making economic decisions’ (paragraph 73). The Statement said it meant actual owners (eg, shareholders) and actual creditors, not also prospective owners and prospective creditors (paragraph 44).³⁶ It then proceeded to enumerate and discuss five ‘general objectives’ about what kinds of financial information the enterprise should provide. The three most salient were information about

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³⁵ The ASOBAT committee stated (p. 22), ‘It is not the function of the accountant to dictate the decision models for users of accounting information’, a passage probably inserted by Sorter.
³⁶ When describing the ways in which owners would use the financial statements, the Statement said, ‘retain, increase, or decrease proportionate ownership; evaluate the use and stewardship of resources by management’ (paragraph 44).
economic resources and obligations in order to form judgments about the ability of the enterprise to survive, to adapt, and to grow; information about changes in net resources that result from its profit-directed activities; and information which assists users in estimating earning potential, including information about the past and present which could help users in making predictions (paragraphs 77-79). The Statement then elaborated seven ‘qualitative objectives’ (it meant attributes, not objectives) that make financial information useful: relevance, understandability, verifiability, neutrality, timeliness, comparability, and completeness (paragraphs 87-94). Conservatism was not mentioned as a recommended quality. Finally, the Statement said that the objectives discussed in the chapter ‘are helpful in evaluating and improving financial accounting information even though they are stated in general terms’ (paragraph 113). Because the Statement was adopted by the Board as mainly an interpretive description of practice and not as a normative document, like ASOBAT, it did not go on to employ these objectives to demonstrate how present practice might be evaluated and improved. The remainder of the Statement was the descriptive portion but usefully organized into conceptual gradations: describing ‘basic features’ and ‘basic elements’ of financial accounting as currently practiced, and ‘pervasive principles’, ‘broad operating principles’, and ‘detailed accounting principles’, all inductively derived from GAAP. It was certainly a thoughtful report, and one that was unprecedented in authoritative pronouncements emanating from the AICPA.

The Statement was drafted by Paul Rosenfield, a project manager for the APB, with the assistance of staff colleagues Reed K. Storey and Rudolph W. Schattke, under the supervision of a Board committee chaired by Oral L. Luper, a financial executive. It contained no references to ASOBAT or to the literature on decision usefulness. In fact, Rosenfield writes that he completed the first draft of the document before he saw ASOBAT, and he also advises that, because Board member George R. Catlett, a partner of Arthur Andersen & Co., had been arguing that the Board should identify and pronounce upon the recommended purposes and objectives of financial statements, ‘it got me started on the decision-usefulness kick’. The project that led to the Statement was initially intended to be an Opinion, but the

37 At the September 4-6, 1968 meeting of the Board, Catlett discussed a memorandum he had prepared for the Board to argue the need to develop a normative statement of the purposes and objectives of financial statements. He was then made chairman of a new Board subcommittee to carry the proposal forward, but the subcommittee never reported. Minutes of meeting of September 4-6, 1968 of the Accounting Principles Board, p. 15, and private memoranda provided to me by Arthur Andersen & Co. in 1982-83.

38 Communication from Paul Rosenfield, dated July 17, 2012. He began the drafting in early 1966, and ASOBAT did not appear until September 1966. Also, in 1968-69, a task force of the American Accounting Association advised the APB’s committee and research staff on the draft of the document at that stage. Minutes of meeting of March 5-8, 1969 of the Accounting Principles Board, p. 13. The chairman of the task force was Robert Sprouse. Two of its
Board could not secure sufficient support for a mandatory expression on accounting concepts. In a strongly worded article, Maurice Moonitz (1971, p. 342) was unremittingly critical of this change in status and also of the watering down of successive drafts from 1968 to 1970: the Statement, he said, ‘was systematically stripped of any controversial language or ideas’. George Catlett, who dissented from the Statement, was one of the strongest voices on the Board that it should issue a normative Opinion as a basis for the future development of accounting. He complained that the Board was looking backward and not forward, because so much of the content of the Statement was a rationalization of existing accounting practice. He said that ‘this Statement – by providing a conceptual basis for, and by giving authoritative status to, current accounting practices – will represent an unfortunate deterrent to the achievement of improvements in practice’ (p. 105). Notwithstanding Catlett’s dissent, it is remarkable that 17 of the Board’s 18 members voted to adopt it – and just two of the members were academics. The Statement represented the first acknowledgement by an AICPA committee of the decision-usefulness approach, and a copy of was sent to each member of the Institute.

One supposes that the APB’s decision to issue a non-binding Statement instead of an Opinion, and, even in a Statement, not to carry the normative approach beyond the objectives and qualitative attributes, can be explained by its reluctance to revisit the issue of possible alternatives to historical cost accounting in the light of the SEC’s known intransigence on the subject.

Four critiques of the Statement were published in the major journals. Staubus wrote that it ‘includes, as its strongest feature, a generally sound set of objectives which, for the first time in the history of official AICPA literature, gives the profession – led by the Board – a target at which to aim GAAP’ (1972, p. 43). Ijiri (1971, p. 46) criticized the objectives for being ‘simply a description of what the accounting profession does now’, and also because the Statement failed to mention the control function of financial accounting. Of the four articles – the other two were Moonitz (1971) and Schattke (1972) – only Schattke (p. 243) compared the Statement with ASOBAT.

That the APB encased its objectives in a Statement and not an Opinion, and that it devoted most of the contents to an explication of existing GAAP, were an important reason why pressure built on the AICPA in 1970-71 to establish a blue ribbon committee to prepare a normative statement of the objectives of financial statements. That committee, which was empanelled in April 1971 and which reported in October 1973, was chaired by former Institute President Robert M. Trueblood, an

other four members were Robert Sterling and Charles T. Zlatkovich, who had chaired the ASOBAT committee. ‘Miscellaneous Association Notes’ (1969).
intellectual leader of the profession. Indeed, the charge to the Trueblood Study Group, as it came to be called, was that Chapter 4 of the APB’s Statement No. 4 is ‘a logical starting point for a study to refine objectives, but the study should not be limited to a refinement of Statement 4’ (Objectives of Financial Statements 1973, p. 67).

3.4. The Trueblood Study Group’s Objectives of Financial Statements (1973)

Objectives of Financial Statements, published in October 1973, was the most ambitious, elaborate, and widely noticed US institutional attempt to propose a set of objectives. Like ASOBAT and the APB’s Statement No. 4, the report of the Trueblood Study Group was the product of committee deliberations, and it risked the inevitable internal inconsistencies and compromise positions of such an undertaking. The nine-member, distinguished committee consisted of three academics (one a former APB member), three partners in Big 8 audit firms (one who had served on the APB, and one who was currently on the APB), two corporate financial executives, and a financial analyst. The committee had a full-time research staff of six, headed by George Sorter, who had been a key member of the ASOBAT committee, and was assisted by Joshua Ronen, both at the University of Chicago. The full-time staff was complemented by loans of part-time staff from audit firms and a number of academics.

The research staff, as is often the case with committee efforts, did the drafting and managed the committee’s operations between meetings. The Study Group met for two full days each month over a period of two years (Sorter 1973, p. 33). The staff also contributed to a volume of 22 background research papers (Objectives of Financial Statements, Volume 2: Selected Papers 1974). The Study Group and its staff set an ambitious program of research and enquiry. It held a public hearing (Public Hearing 1973), conducted interviews with business leaders and important decision makers, and invited position papers from some 4,500 organizations and individuals.

In its report, the Study Group acknowledged the Moonitz and Sprouse-Moonitz research studies, ASOBAT, and APB Statement No. 4, as well as a recent Australian study to which Staubus contributed (Kenley and Staubus 1972), to be discussed in section 6.2. The Study Group advanced a series of twelve statements of objectives, which focused on the variables under discussion at different

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39 The Institute’s leadership would have been aware of a speech that Trueblood (1970, p. 62) gave to the American Accounting Association on August 27, 1969, in which he called for ‘the development of a statement of accounting objectives’. He said, ‘The lack of a set of consistent objectives – and the absence of a statement of the basic purposes of financial reporting – are, in my view, a main reason for the present piecemeal approach to the Board’s task’.
At the outset, it stated the following ‘basic’ objective: ‘The basic objective of financial statements is to provide information useful for making economic decisions’ (p. 13). The remaining eleven were implementing objectives. The basic objective was similar to the one advanced by Staubus in his 1961 book and thus reflected the decision-usefulness objective. The Study Group then narrowed the set of users to investors and creditors because they ‘have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise’s economic activities’ (chap. 2). The Study Group concluded that ‘the information needs of creditors and investors are essentially the same. Both groups are concerned with the enterprise’s ability to generate cash flows to them and with their own ability to predict, compare, and evaluate the amount, timing, and related uncertainty of these future cash flows’, which was stated as an objective (p. 20). This analysis also paralleled that in Staubus’ 1961 book. It then said that ‘the enterprise’s ability to achieve its ultimate goal of providing maximum cash to owners’ is the overall concept of ‘earning power’, and it stated the next objective as: ‘An objective of financial statements is to provide users with information for predicting, comparing and evaluating earning power’ (p. 24).

Hector Anton (1976, p. 43), in an analysis and critique of the Study Group’s report, wrote, ‘Since the [basic] Objective focuses on information for decision making rather than on the traditional accounting purposes of stewardship reporting, it represents a fundamental change in attitude in setting financial accounting objectives’. Yet the Study Group did take up the subject of accountability, which it said ‘is a broad term that encompasses stewardship’, and it propounded a companion objective:

An objective of financial statements is to supply information useful in judging management’s ability to utilize enterprise resources effectively in achieving the primary enterprise goal. (p. 26)

The latter objective, the Study Group said, was not to be confined solely to history, because past events ‘cannot be assessed without considering their probable outcome’ (p. 26). Consequently, even the accountability objective was to take into consideration future consequences, that is, information ‘about potential as well as actual results’ (p. 26). Anton (1976, p. 47) argued that this objective was flawed and should be omitted, saying, ‘Except for the most obvious management successes and failures (which are usually visible without accounting), the results reported by accounting are clouded by the interaction of

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40 George Sorter and Martin S. Gans (1974) and Hector R. Anton (1976) have helpfully classified the 12 objectives into tiers or hierarchies.
management ability and a host of other factors that management cannot control and often cannot even be expected to anticipate.

Relegated to the penultimate chapter, almost as an afterthought,\(^{41}\) was an enumeration and discussion of several ‘qualitative characteristics of reporting’ to satisfy users’ needs (much in the manner of \textit{ASOBAT} and the APB’s \textit{Statement No. 4}). Information must be relevant and material, substance should rule over form, and the information must be reliable, free from bias, must promote comparability, and should be consistent and understandable (chap. 10). Under the heading of freedom from bias, the Study Group asserted that ‘Conservatism for its own sake may actually introduce bias’ (p. 58). They suggested that there would be ‘a substantial lessening in the belief that conservatism is essential’ if financial statements were to communicate ‘information about varying degrees of uncertainty, about the judgments made and the interpretations applied, and about the underlying factual information’ (p. 59). Earlier in their report, the Study Group proposed that companies disclose ranges of possible values where single numbers would not aptly describe events subject to uncertainty (p. 39).\(^{42}\)

Returning to the main theme, the Study Group then advanced the notion of ‘earnings cycles’: ‘Since the goals of an enterprise and its earning process involve the use of cash to generate the maximum amount of cash, earnings cycles should relate cash receipts and disbursements’ (p. 27). A minority of the Study Group, probably the financial executives, regarded the notion of earnings cycles as ‘a simplistic and/or impractical approach to the measurement of accounting earnings’ (p. 29). Completed earnings cycles were easy to log, but how to assess recognizable progress towards the completion of incomplete earnings cycles, ones where the ultimate cash, for example from unsold products, has not been received? This is where changes in the value of assets enter the picture, as they ‘may provide the best current indication of the outcome of the cycle’ (p. 31). The most contentious issue in the report was the disagreement over whether ‘value changes that meet the qualitative criteria discussed in this report should be included in earnings’ (p. 37) – probably one of the most disputed questions in accountants’ profit measurement in the last hundred years. The Study Group concluded that ‘the objectives of financial statements cannot be best served by the exclusive use of a single valuation basis’ (p.41) and then proceeded to indicate the comparative helpfulness of historical cost,

\(^{41}\) That Sorter (1973), in an article that appeared just after the Study was published, did not refer at all to the qualitative characteristics leads to an inference that these were not inspired by the staff.

\(^{42}\) \textit{ASOBAT} (pp. 13, 29) made a somewhat similar suggestion, proposing that accountants ‘report in terms of interval estimates or probability distributions’, but it was not said to be motivated by the desire to avoid reliance on conservatism.
exit values, current replacement costs, and discounted cash flows in fulfilling the information requirements (pp. 42-43). Thus, the Study Group concluded, as had the ASOBAT committee, that the objectives cannot be satisfied by a single valuation basis, yet while the ASOBAT committee recommended multicolumn reporting of historical cost and current cost, the Study Group expanded their set to four valuation bases. The Study Group’s ordering of the comparative merits of the four valuation bases foreshadowed a similar inability of the Financial Accounting Standards Board (FASB) to reach agreement on valuation bases (‘measurement attributes’) in Statement of Financial Accounting Concepts No. 5 in 1984 (FASB 1984, paragraphs 66-70). But where the FASB, after 10 years of research and deliberations, could do no more than enumerate the five valuation bases used in present practice, the Study Group in 30 months could at least assess their comparative merits in terms of the information requirements. In fairness to the FASB, it must be said that, in the light of the SEC’s long-standing support of historical cost accounting, it would have been courageous for a standard setter to take a position on the recommended use of valuation bases other than historical cost, but not so for a study group such as Trueblood.

The Study Group proposed a new financial statement, the statement of financial activities, in addition to a statement of financial position and a statement of earnings. The statement of financial activities, as illustrated on pages 350-352 in Volume 2, was in reality a variation on the funds flow statement, yet the former focused on monetary assets and not on net working capital. Under the APB’s Opinion No. 19, a funds statement first became a required financial statement for financial years ending after September 30, 1971, and thus was still somewhat of a novelty in 1973. But the statement of financial activities was also to disclose the changes in investment in inventories, purchase commitments, and sales orders backlog, giving effect to the Study Group’s desideratum that ‘Financial statements should report both facts and interpretations about transactions and other events’ (p. 34).43

In Chapter 7, following presentation of the core of its report, the Study Group said that another objective of financial statements is that enterprises should provide financial forecasts ‘when they will enhance the reliability of users’ predictions’ (p. 46). But the Study Group added, ‘The issue here is not whether forecasts should be made, but whether they should be included in financial statements’ (p. 46).44 They also recommended reporting ‘on those activities of the enterprise affecting society’ and

43 One can see in the statement of financial activities the influence of Sorter’s ‘events’ approach in his 1969 article, cited in section 3.2.
44 The Study Group said that financial forecasts should be provided ‘when they will enhance the reliability of users’ predictions’. But this was statement was immediately preceded by ‘An objective of financial statements is to provide information useful for the predictive process’. This section on financial forecasts was written with delicate
‘which are important to the role of the enterprise in its social environment’ (p. 55). To many practitioners, there were some heady, almost threatening, ideas in this, a report of a blue-ribbon committee of the Institute: a new analytic tool called earnings cycles, recommended valuation models other than historical cost, a novel financial statement, prominent roles accorded to the predictive process and financial forecasts, and the desirability of social reporting. Gore (1992, p. 47) has written that it was seen by many to be ‘a radical report’.

John C. (Sandy) Burton and Patricia Fairfield (1981, p. 1-7) wrote, tellingly (because Burton was the SEC’s activist chief accountant from 1972 to 1976) about two of the issues raised in the report that were not part of its central message, as follows:

What may turn out to be the most significant points of the report...are two observations that may point the way toward the future of financial accounting. The first is that earnings forecasts are useful for the predictive process, thus opening the door for their inclusion in financial statements. The second is the suggestion that companies may be expected to report on aspects of their business that affect the goals of society in addition to the goals of their specific stockholders. The definition of user groups would be broadened considerably if and when this view becomes an accepted objective.

In February 1973, under Burton’s leadership, the SEC issued a release which, for the first time, allowed issuers to include forecasts and projections in prospectuses, but under controlled conditions (Burton 1974b, p. 88). Burton said that perhaps the most significant factor which led the Commission to change its historical position on forecasts was ‘an increasing recognition of the relevance of future-oriented data in investment decision making’ (p. 84). He would have been aware that Robert Trueblood, in a speech on the progress of his objectives Study (1972, p. 41), revealed that the Study Group was contemplating ‘the possible need for forecasts and budgets as part of basic financial reports’.

Trueblood’s speech was given at a conference in October 1971 which Burton’s predecessor Andrew Barr attended. Did the work of the Study Group in any way influence the SEC to take this first step, or did the SEC’s decision to issue the release embolden the Study Group to call for forecasts? The answer is probably some of each. It is known that the Study Group invited Harvard law professor David Herwitz wording, because Sidney Davidson (1973, p. 8), a member of the Study Group, wrote that there was not unanimity on the principle of recommending the inclusion of forecasts with the financial statements.
(1974) to submit a memorandum on ‘The Risk of Liability for Forecasting’, dated June 23, 1972, to learn if it was ‘realistic’ to ask for forecasts in a regime where there may be liability.\textsuperscript{45}

Curiously, for a report that was commissioned to propose just the objectives of financial statements, it traversed most of the ground of a full conceptual framework, as if the Study Group felt it necessary to demonstrate practical accounting implications of its objectives. Ray Chambers has written that, as the Study Group had said ‘it has sought ends, not means’, why did it take up such ‘means’ as the concept of earnings cycles, the recommended financial statements, and the comparison of the four valuation bases? (1973, p. 19) To be sure, the Study Group, unlike the ASOBAT committee, did not use the objectives to assess the propriety of specific accounting practices (eg, recognition of deferred taxes), but it did go well beyond the realm of objectives. On the other hand, Edward Stamp pronounced his disappointment with the report because ‘it fails to show how improved accounting standards and practices will follow logically from the Objectives it has defined’ (1973, p. 16). Stamp had expected to see a full conceptual framework with an explication of its consequences for practices and the future of standards. Robert Mautz (1973, p. 18), a historical coster, observed that, ‘Stated in terms of power blocs, the [Trueblood] proposal is that financial analysts rather than financial executives should now have the dominant voice in the substance and form of corporate financial reports’.

Kenneth Peasnell (1974, p. 53), a British academic who published a monograph in which he critiqued the report, wrote: ‘the whole tenor of the report can be summed up in the words “When in doubt, disclose”. This runs counter to the general philosophy of most managements which could be summed up as “Only report that which is required by law or is necessary to prevent a ‘qualified’ audit opinion, or will enhance the competitive position and social status of the company”’. Because of evidence that managements dislike expansions of disclosure requirements, which they regard as infringements on ‘management’s right to manage’, Peasnell concluded that ‘the Study Group are on the right lines in emphasising greater disclosure, if only to serve as a counterweight to management’ (pp. 53-54). See the discussion in section 5.2 of the work of the British committee in 1974-75 that produced The Corporate Report, an even more radical report than Trueblood. The person who was tapped to head up the committee’s research support team was none other than Ken Peasnell.

In 1973, the Financial Executives Research Foundation, in support of the work of the Study Group, published an empirical study on the purposes of financial reporting, based on in-depth interviews with the top executives of 62 major companies and firms, representing, it said, preparers and users of financial statements. One finding was that 90 percent of the companies and firms interviewed

\textsuperscript{45} Herwitz’s paper was published in Volume 2, Selected Papers of the Study Group’s report (1974).
said that they allocate first priority in financial reporting to the existing shareholder. Seventy-five percent of them considered the overall purpose of financial reporting to be accountability for performance, or stewardship (Rice et al. 1973, pp. 11, 14-15). This was a ringing endorsement of the stewardship objective and, one supposes, of the use of historical cost.

The Study Group had begun its life while the part-time APB, a senior technical committee of the AICPA, was still the standard setter, but by the time its report was published in October 1973, the FASB, a full-time independent body with significantly enhanced resources, had taken the APB’s place. What role would a report from an AICPA Study Group play in the deliberations of the FASB? As it turned out, the FASB used the report as the template for its own concepts statement on the objectives of financial reporting.

3.5. FASB’s SFAC No. 1, Objectives of Financial Reporting by Business Enterprises (1978)

The FASB succeeded the APB as the US standard setter in July 1973, although its members began holding meetings as early as March that year. It was to be an independent, full-time body with a large research staff, as recommended by the Wheat Study Group (Establishing Financial Accounting Standards 1972) and accepted by the AICPA Council in June 1972. Even though the Wheat Study Group said it did not believe that ‘the Board’s staff should be expected to conduct a broad, fundamental research program dealing with basic concepts on an ongoing basis, since we believe that this type of research is best left to those in the academic field’ (p. 78), the Board decided by the end of 1973 to launch its ‘conceptual framework’ project, which had as its foundation-stone a statement on the objectives of financial statements by business enterprises (Zeff 1999, pp. 101-105), and indicated that it would draw on the Trueblood Report (Task Force Appointed... 1973). In its discussion memorandum on objectives issued in June 1974, the Board said that it would undertake ‘further extensive research’ beyond the Trueblood Report and APB Statement No. 4 (FASB 1974, p. 2). The Board issued an exposure draft and a follow-on memorandum and held two public hearings on objectives even though most of the spade work had been done by the Trueblood Study Group, whose report, Sprouse (1988, p. 124) has written, laid the ‘foundation’ for the Board’s conceptual framework. Yet Joshua Ronen and George Sorter (1989, p. 74), the lead researchers for the Trueblood Study Group, wrote, ‘After initially not accepting the

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46 Sandy Burton (1974a), the SEC chief accountant, made it known that the SEC was ‘encouraged’ that the FASB was using the Trueblood Report as a framework for a statement on objectives.
Trueblood report, but insisting on their own study to formulate objectives, the FASB subsequently enunciated objectives consistent with the Trueblood objectives'.  

As late as December 1976, when the FASB issued a memorandum stating its ‘tentative conclusions’ on objectives (Tentative Conclusions), the Board still described the project as ‘objectives of financial statements’. But in its Statement of Financial Accounting Concepts (SFAC) No. 1, issued in November 1978, ‘financial reporting’ replaced ‘financial statements’. The Board did not explain this change in scope (the first seven concepts statements did not contain a section on ‘basis for conclusions’), but it wanted to underscore the point that financial statements, while ‘a central feature of financial reporting’, were not the entirety of an enterprise’s external communications of accounting information to outsiders (paragraph 6). ‘To a significant extent’, Storey and Storey (1998, p. 89) wrote, the change in scope ‘reflected comments received on the Tentative Conclusions document’. The FASB was broadening its scope of responsibility (Gore 1992, p. 60). 

Unlike the Trueblood Report, which contained a sequential listing of 12 stand-alone objectives, set out in bold face, SFAC No. 1 did not provide a single stand-alone objective except in the ‘Highlights’ section at the front. The Board’s aim was to state objectives for general-purpose financial reporting destined for external users who were making business and economic decisions. Management, as an internal party, was excluded from the set. After listing a wide range of potential users in paragraph 24 and further discussion, the Board identified ‘[i]nvestors and creditors and their advisors’ as ‘the most obvious prominent external groups who use the information provided by financial reporting and who generally lack the authority to prescribe the information they want’ (paragraph 30). Hence: ‘Financial reporting should provide information to help present and potential investors and creditors and other

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47 Staubus (2003, pp. 184-185) has written about the speaking campaign at chapter meetings of the Financial Executives Institute (FEI) by Robert Mautz on behalf of audit firm of Ernst & Ernst against the decision-usefulness approach to objectives, because, Staubus believed, Mautz and his firm feared that it would lead to the use of current value accounting. Dennis R. Beresford (1983, p. 66), his partner in the firm, discussed this campaign in 1977 and said that its motive was to ‘educate’ financial executives about ‘the potential dangers’ which the framework project presented, namely, a possible movement towards ‘an entirely new financial reporting model based largely on current values’. Also see Gore (1992, pp. 94-95). As noted in section 3.4, the FEI’s research foundation published a report in 1973 which found that most preparers and users viewed financial reporting as a stewardship function.

48 Surrenda P. Agrawal (1987, p. 171) has written, ‘it is not clear which of the objectives are really intended to be achieved by financial reporting’. SFAC No. 1 was deficient in not apprising the reader, as did the Trueblood Report, which were the salient objectives as one reads the text. A useful restatement of the objectives may be found in Statement of Financial Accounting Concepts No. 2 (SFAC No. 2) (1980, paragraph 22).
users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans’ (p. viii).  

Several paragraphs (50-53) are given over to a discussion of stewardship, a term which was said to be interchangeable with accountability. (In the Trueblood Report, accountability was said to be a broader term that encompassed stewardship.) Another objective was therefore that ‘Financial reporting is expected to provide information about an enterprise’s financial performance during a period and about how management of an enterprise has discharged its stewardship responsibility to owners’ (p. ix). The Board made the important point that financial reporting can provide information about enterprise performance but not directly about a management’s performance, because ‘Actions of past managements affect current periods’ earnings, and actions of current management affect future periods’ earnings’ (paragraph 53).

While SFAC No.1 was clearly predicated on the Trueblood Report, there were nonetheless salient differences both in content and methodology. There was no reference to earnings cycles, a statement of financial activities, and on reporting to achieve social goals. The Board eschewed a term to which the Trueblood Report attached considerable importance; it said, ‘both the concept of “earning power” and the techniques for estimating it are part of financial analysis and are beyond the scope of financial reporting’ (paragraph 48). While the Trueblood Study Group recommended that enterprises provide financial forecasts, the Board said that conclusions about ‘management forecast information’ were beyond the scope of the Statement. SFAS No. 1 retained Trueblood’s emphasis on futurity but in the context of accrual accounting. Hence, the Board’s Statement was considerably less enterprising than the Trueblood Report.

In Statement of Financial Accounting Concepts No. 2, on qualitative characteristics, which was drafted for the FASB by David Solomons, conservatism was displayed as a subset under reliability. The FASB defined conservatism as ‘a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered’ (paragraph 95) and advised that ‘Conservatism in financial reporting should no longer connote deliberate, consistent understatement of

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49 SFAC No. 1 was not carefully edited to assure a consistent use of terminology for the various classes of users. In the long list of potential users in paragraph 24, ‘potential investors and creditors’ is shown but not also present investors and present creditors. Yet in the quotation keyed to this footnote, ‘present and potential investors and creditors’ is used. In paragraph 26, the usage is ‘[s]ome investors and creditors or potential investors and creditors’. In paragraph 35, ‘investors’ is defined to include ‘equity securityholders and debt securityholders’.

50 The FASB’s counterpart of chapter 10 in the Trueblood Report on qualitative characteristics of reporting was SFAC No. 2.

51 Solomons had been commissioned to draft the statement by George Staubus, who was then the FASB’s director of research and technical activities.
net assets and profits’ (paragraph 93). The issue of conservatism was extensively discussed in paragraphs 91 to 97, and it was concluded that ‘Prudent reporting based on a healthy skepticism builds confidence in the results and, in the long run, best serves all of the divergent interests that are represented by the Board’s constituents’ (paragraph 97). This was the first favorable mention of conservatism as a recommended criterion in the stream of decision-usefulness frameworks, from ASOBAT to the APB’s Statement No. 4 and the Trueblood Report. It was, in some sense, daring to include conservatism in the set of qualitative characteristics, because for some considerable time it had been a bête noire to some leading US accounting academics, especially because of the ‘lower of cost or market’ method for valuing merchandise inventories (Paton 1922b, p. 446; Hatfield 1927b, p. 274; Gilman 1939, p. 235; Paton and Littleton 1940, p. 81; Sterling 1967b). But to the FASB, conservatism meant prudence in the face of uncertainty. As will be seen in section 8, neither conservatism nor prudence was given status as a component in the qualitative characteristics in SFAC No. 8, issued in 2010 jointly with the IASB.

3.5.1. Critiques of SFAC No. 1 and the objectives approach

David Solomons (1986b, pp. 68-72) found that the FASB approached the matter of objectives ‘more obliquely’ than it might have, as SFAC No. 1 did not state an overall objective but instead interspersed as many as eight possible objectives throughout the Statement, none singled out and called the basic objective. Perhaps this manner of exposition was the consequence of a Board or a staff that could not agree on where to place the emphasis. There were no dissents to the Statement. Yuji Ijiri (1983, p. 75) criticized ‘decision based’ conceptual frameworks (such as SFAC No. 1) because they gave too much weight to the accountee (user) and too little to the accountor (management). Under his accountability-based framework, the relationship has the advantage of being ‘bidirectional’.

Burton and Fairfield (1981, p. 1-7) expressed an air of disappointment: ‘It is fair to conclude that the FASB so far has failed to speak out in the two areas [mentioned above with respect to the Trueblood Report] where its opinions could have some impact on the evolution of financial reporting. The other objectives identified by the FASB, while reasonable in themselves, do not establish a foundation for change, and in fact do little more than justify prevailing practice’. Solomons (1986a, p. 118) took the Board to task for adopting a narrower focus than the Trueblood Study Group. Both he and Burton and Fairfield (1981, p. 1-7) complained that the Board’s emphasis on investors and creditors and its omission...
of any objective that enterprises should report on achieving social goals sent a regrettable message to other countries, including especially developing countries, where economic and social conditions were very different than in the United States. But the FASB had made a point of saying that its role was to develop a conceptual framework for the US environment (paragraph 9), not for the world.

Yet how important, when all is said and done, is an exercise to state the objectives of financial reporting? In this regard, David Solomons (1986a, p. 118), an ardent advocate of a conceptual framework, made a startling observation: ‘It may be doubted whether any statement of objectives would be likely to have much impact on the accounting standards subsequently issued by the board’. In Solomons (1986b, p. 67), when discussing SFAC No. 1, he wrote, ‘it is first worth asking why a statement of objectives is necessary at all’. He then opined that the passage in the Trueblood Report, arguing that an explicit statement of objectives is essential to the rational development of accounting, is ‘quite unconvincing’.

Homer Kripke (1989, p. 11), a noted law academic, wrote, ‘It is fair to state that [SFAC No. 1] seems to have had little influence on the subsequent [FASB concepts statements or standards]’. Sandy Burton (1989, p. 80) wrote, ‘I found the first Statement, which deals with the objectives of financial reporting, to be the most significant and the most ignored [by the Board]’. After conducting a careful review of the objectives literature, the Canadian Ross Skinner (1987, p. 642) intoned, ‘Consideration of the objectives of financial reports does not appear to provide much guidance for specific reporting policies’. Nicholas Dopuch and Shyam Sunder (1980) reached a similar conclusion: ‘previous authoritative efforts to write objectives are generally considered inadequate in helping to resolve accounting issues’ (p. 3). They then used the FASB’s objectives and qualitative characteristics to attempt to resolve three contentious accounting practice issues, and concluded that ‘the results of the FASB’s effort to write objectives and definitions are hardly different from previous attempts of this nature and, as such, are unlikely to help resolve major accounting issues or to set standards of financial reporting as the FASB had expected’ (p. 8). After examining the FASB’s first two concepts statements, Richard Macve queried, ‘Does sorting out what one means by the term “useful information” (by identifying what characteristics of useful information are in general) significantly advance the ability to resolve disputes over whether some particular proposal will provide useful information?’ (1981, p. 76) He responded by saying that any such help will be limited.53 Even Robert Sprouse, a founding member of the FASB and

53 Sterling (1972) has illustrated how difficult it is to move from ‘usefulness’ to the selection of valuation methods. Bryan Carsberg, John Arnold and Anthony Hope (1977) have amply illustrated the extreme complexity one encounters when moving from a shareholders’ valuation model, using portfolio theory, towards identifying the future events which they wish to forecast in order to be able to assess alternative types of information.
another strong advocate of a conceptual framework, at the end of a discussion paper in which he pronounced that the Trueblood Report was a document ‘of high quality and with great potential impact on the development of accounting standards for financial statements’, nonetheless cautioned that ‘I have no illusions about the use of such a document to prove that a particular accounting standard is “right”’ (1974, p. 28). This collection of views represents a strong dose of scepticism about how meaningful and consequential the setting of objectives may be.

It is interesting that Donald J. Kirk (1989, p. 104, footnote omitted), who was the FASB chairman from 1978 to 1986, subsequently justified SFAC Nos. 1 and 2 as follows: ‘The mission statement of the FASB, which is in large part derived from FASB Concepts Statements 1 and 2, has been very effective in explaining to the general satisfaction of the FASB’s many publics and overseers, including committees of the Congress of the United States, how the Board attempts to fulfill its public responsibility to improve financial reporting’. A conceptual framework can thus clothe the standard setter with legitimacy.54

Dopuch and Sunder (1980), drawing on the work of Beaver and Demski (1974) and Cyert and Ijiri (1974), argued that the development of the objectives of financial statements is, in principle, a fruitless exercise when viewed in its social context. First, one must address the issue of the possibility of irreconcilable conflicts of interest within the class of users. Second, there is an inescapable heterogeneity of preferences for information sets among the three diverse groups at issue: users, management, and the accounting profession (including auditors) – even if one assumes that further intragroup heterogeneity is unimportant. Dopuch and Sunder (1980, p. 12) write, ‘Generally, agreement on principles and objectives will be easier to obtain if such statements are sufficiently vague so as to allow room for various interest groups to adopt their own interpretations’. So there may be no inherent motivations, intragroup and intergroup, for them to coalesce around a single information set (p. 13).55 Second, ‘If the user group [assuming homogeneity within it] had the power to enforce its preferences at

54 Charles T. Horngren, who served from 1968 to 1973 as a member of the Accounting Principles Board, wrote that a conceptual framework ‘is likely to help provide power to the [FASB]’ (1981, p. 88).
55 Richard Macve (1981, pp. 65-71) has also raised the spectre of these conflicts of interests. A practical illustration of this heterogeneity was the profound differences in view expressed about the objectives of financial statements as between preparers and others in a conference on the conceptual framework (The Conceptual Framework of Accounting 1977). Another illustration was the finding by a puzzled FASB chairman that only 37 percent of respondents to the FASB’s discussion memorandum on the conceptual framework agreed that providing information useful for making economic decisions was an objective of financial accounting. Dopuch and Sunder (1980, pp. 12-13), who said they were puzzled at the chairman’s puzzlement, argued that auditors, who probably seek to maximize their own wealth, might well view such an objective as exposing them to risk without correspondingly higher compensation. The AAA committee that wrote the Statement on Accounting Theory and Theory Acceptance (Committee on Concepts and Standards 1977, p. 34) said, ‘Since individuals in a multi-person setting have diverse preferences, no single set of standards for external reporting is likely to be consistent with those diverse preferences’. 
no cost to itself, the objectives of this group could be called the objectives of financial accounting....However, there is little evidence that the user group has the power to impose its preferences on financial accounting’ (p. 14). Yet another issue is that the user-primacy notion in the selection of objectives ‘ignores how firm managers are likely to adjust their behavior to the new information (and how this adjustment in management behavior will affect the interests of the so-called users)’ (p. 15).

3.6. Some further criticism: predictive ability

There is a considerable literature which criticizes – or utilizes – the predictive ability criterion for decision usefulness as an objective. Ken Peasnell (1973, p. 20) examined much of this literature, both normative and empirical, and concluded that ‘Accounting practices should not be evaluated according to their usefulness to investors in predicting future events or states. This is not to say that profit forecasts or sales outlooks should not be included in the annual statements....The primary goal of financial reporting should be to [provide] “feedback” data about values of resources held by the firm as distinct from the shareholders’. He worried that ‘Accounting theory has been too slack in its definition of usefulness’. On the other side of the question, as observed above in a footnote, Bryan Carsberg, John Arnold, and Anthony Hope (1977) proposed a model, using portfolio theory, to enable forecasts of future events in order to assess alternative types of information for reporting to shareholders.

4. British literature on objectives

4.1. Some comments on the British legal culture

Very much unlike that in the United States, the legal culture in Great Britain has consisted of a strong, unitary company law which has been revised and updated approximately every two decades, but more frequently in recent years (Benston 1976, pp. 14-17; Zeff 1972, pp. 67-68). Company directors are required to provide shareholders with annual, audited financial statements, and the auditor is appointed by and reports to the shareholders, even though, in practice, the shareholders almost always endorse the directors’ choice of auditor. Bush (2005, p. 15) has written, ‘Under British company law the purpose and the authority in financial reporting matters stems from the same source, namely the shareholder base and their corporate objectives’.

56 In the United States, the board of directors was formally tasked with appointing the auditor, and since the Sarbanes-Oxley Act of 2002, the directors’ audit committee has had that responsibility.
Stewardship as a motivation for the preparation of financial statements has long been predominant in Great Britain. Williamson and Lipman (1991, p. 364) wrote that the ‘interdependence of stewardship and accounting was the rationale for explaining the demand for accounting numbers and auditing until well into this century’. In the Report of the [Cohen] Committee on Company Law Amendment (1945, p. 54), it was stated that ‘the primary purpose [of the published accounts] is to convey financial information in a form that can be assimilated by shareholders and creditors’. An implication of the reporting to shareholders is the stewardship objective. Since 1947, the Companies Act has provided that ‘The group accounts laid before the company shall give a true and fair view of the state of affairs and profit or loss of the company and the subsidiaries dealt with thereby as a whole’ (Companies Act, 1947, section 16). The early twentieth century accounting literature usually did not refer to stewardship by name, but it conveyed the clear impression that the beneficiaries of company annual reports were the (existing) shareholders.\textsuperscript{57}

The Council of the Institute of Chartered Accountants in England and Wales (ICAEW) famously said in ‘Accounting in Relation to Changes in the Purchasing Power of Money’, issued in 1952 as number 15 in its Recommendations on Accounting Principles series, ‘The primary purpose of the annual accounts is to present information to the proprietors, showing how their funds have been utilised and the profits derived from such use. It has long been accepted in accounting practice that a balance sheet prepared for this purpose is as an historical record and not a statement of current worth’ (Zeff 2009, p. 85). This passage was quoted with great favour in the government’s Report of the [Jenkins] Company Law Committee (1962, paragraph 333).

In 1965, the ICAEW ‘was given counsel’s opinion that in law the object of annual accounts is to assist shareholders in exercising their control of the company by enabling them to judge how its affairs have been conducted’, and by 1975 corporate reports were still said to be the ‘primary means’ by which management fulfilled its stewardship responsibility (The Corporate Report 1975, pp. 16, 34). In a significant court case in 1990, one of the Justices said in the Law Lords’ decision in Caparo, construing the Companies Act of 1985, ‘There is nothing in Part VII which suggests that the accounts are prepared and sent to members for any purpose other than to enable them to exercise class rights in general meeting…. Advice to individual shareholders in relation to present or future investment in the company is no part of the statutory purpose of the preparation and distribution of the accounts’.\textsuperscript{58}

\textsuperscript{57} See, for example, Dicksee (1920) and De Paula (1934). For a historical perspective, see Yamey (1960, p. 17).

\textsuperscript{58} Passage taken from the opinion of Lord Jauncey of Tullichettle in Caparo Industries plc (Respondents) v. Dickman and others (Appellants), Judgment, 8 February 1990, p. 48, at http://www.bailii.org/uk/cases/UKHL/1990/2.html.
Another element of legal influence on the content of published financial statements was the substantial body of case law that allowed considerable discretion to management (eg, whether or not to charge depreciation) for the purpose of computing divisible profits (Yamey 1941; French 1977).

Jack Kitchen (1976, p. 82) has written that, in the 1970s, with the increase in importance of the class of institutional shareholders (eg, investment managers of pension funds, life assurance, and other insurance funds, unit trusts, and investment trusts) who had come to account for such a large slice of equity dealings and who were so important in setting equity share prices, arguments were being made that the definition of stewardship should be broadened correspondingly to consider the shareholder as investor.  

4.2. The Stamp effect (1969-70) and The Corporate Report (1975)

In 1969, the climate of financial reporting in Britain was changing. Following on the heels of a series of scandals that exposed the considerable flexibility in accounting principles and how managers had taken advantage of it apparently to deceive readers of their financial statements, Edward Stamp, an accounting professor at the University of Edinburgh, published a strongly worded letter in The Times on September 11, ‘Auditing the Auditors’, in which he criticized the profession for tolerating the multitude of alternative accounting principles and called upon it to ‘initiate a full-scale research programme as soon as possible...to produce a set of rational, logical and self-consistent accounting principles’ as part of an urgent reform. It was virtually unknown for a member of the profession to take the leadership of a professional institute to task in public, let alone in the pages of the country’s leading newspaper. Equally astonishing was what happened eleven days later: the ICAEW president, Ronald (later Sir Ronald) Leach, a senior partner in Peat, Marwick, Mitchell & Co., responded to Stamp mostly with sympathy, but making no concessions, in The Times.  

In Leach’s letter, he promised no changes, yet, under his leadership, this published correspondence shortly led to the replacement of the series of Recommendations on Accounting Principles, which undertook to institutionalize ‘best practice’, by a series of Statements of Standard Accounting Practice to be drafted by a newly created Accounting Standards Steering Committee (ASSC) under the auspices of the ICAEW (Rutherford 2007, chaps. 1-2).

What Stamp subsequently called ‘a crisis in the accounting profession’ (Stamp and Marley 1970, p. 65)

59 Reporting on an interview study and a questionnaire survey of British qualified accountants, Carsberg, Hope and Scapens (1974, p. 173) concluded, ‘The traditional stewardship objective of accounting is still widely acknowledged as important. There appears to be a growing consensus, however, that the provision of information to assist shareholders with their investment decisions should be recognized as a second important objective of accounting statements’.

60 Both of these letters plus a reply by Stamp were reproduced in Stamp and Marley (1970, Appendix I).
had been weathered. By 1974, all five of the other senior accountancy bodies in the UK and Ireland had joined as co-sponsors of the committee. The new committee was expected to be more definitive in narrowing the areas of flexibility in accounting practice.

In 1970, Stamp contended that stewardship reporting ‘is still a reasonable approach in the case of trustee accounts, but it is scarcely relevant to the needs of the modern investor’ (Stamp and Marley 1970, p. 77). He argued that ‘accountants need to define the nature and function of financial accounts, and they have to do so in relation to the needs of the persons using these accounts’ (p. 137). Also: ‘If we can accept that the main purpose of financial accounts of public companies is to serve the needs of investors, both large and small, then it seems clear that financial accounts should be produced in a form which provides information relevant to the needs of such investors’ (p. 141). The times had changed, and Stamp came to be the trumpet of the new purpose and role of company financial reporting. He was writing before publication of the APB’s Statement No. 4, and he did not refer to ASOBAT or to the writings of Staubus on decision usefulness to support his argument.

Stamp was not appointed to the ASSC, but he was named to an eleven-member working party set up by the ASSC in 1974 to ‘re-examine the scope and aims of published financial reports in the light of modern needs and conditions. It will be concerned with the public accountability of economic entities of all kinds, but especially business enterprises. It will seek to establish a set of working concepts as a basis for financial reporting. Its aims will be to identify the persons or groups for whom published financial reports should be prepared, and the information appropriate to their interests’ (The Corporate Report 1975, p. 1). This was a wide remit indeed. It was just the kind of research into ‘scope and aims’ that Stamp had called for in 1969 and again in 1970, and he was to be the one academic on the working party. The working party was chaired by Derek Boothman, a partner in Binder Hamlyn Singleton Fabian in Manchester. The eleven members were ‘five from industry, three from public practice and one each from the financial, local government and academic fields’ (The Corporate Report 1975, p. 7). Boothman recalls that it was ‘a strong and well-balanced committee’. 61 Two of the members, including its chairman, were serving on the ASSC at the same time. Graham Corbett, a senior partner in Peat, Marwick, Mitchell & Co., and Stamp were likely to have led the discussion on most topics, and it is evident that they clashed on the choice of measurement bases. As far as I am aware, none of the other members had previously published anything on ‘scope and aims’, but Stamp certainly had.

The working party began its deliberations in October 1974, and its report was published in August 1975. It thus had very little time to agree a report on a very large set of issues. By contrast, the

61 Interview with Derek Boothman, August 24, 2012.
ASOBAT committee had been given two years; four years were needed to draft and re-draft the APB’s Statement No. 4, and the Trueblood Study Group, abetted by a sizable full-time research staff, used two-and-a-half years to develop its report. The ASSC’s working party was assisted by Michael Renshall, the ICAEW’s technical director (who was also the secretary to the ASSC and had other technical duties). He played a major role in the deliberations, and he oversaw the drafting. Stamp’s International Centre for Research in Accounting at the University of Lancaster (to which he had moved from Edinburgh in 1971) was commissioned to provide research support and was led by Ken Peasnell (himself an ICAEW Chartered Accountant), then a Ph.D. student. Brian Rutherford (2007, p. 108, footnotes omitted) has reported: ‘the Centre carried out a literature survey, organized discussions within the professional bodies, and solicited the views of professors of accounting and the chairmen of 300 major companies; in addition a general invitation to submit comments was issued. One hundred and seven individuals and organizations made submissions’.

In its report, the working party said ‘the corporate report’ was meant to encompass, in addition to the financial statements, ‘narrative and descriptive statements and often, illustrative material’ (p. 9). It also said that it had broadened its study ‘so as to be capable of application in principle to all classes of economic entity, whether in the private or public sector, whether profit seeking or non-profit seeking’ (p. 10). The working party said it was concerned with ‘general purpose reports designed for general purpose use’ (p. 16). It said, ‘Users of corporate reports we define as those having a reasonable right to information concerning the reporting entity. We consider [that] such rights arise from the public accountability of the entity whether or not supported by legally enforceable powers to demand information’ (p. 17). For a country with a long history of stewardship reporting, this was heady stuff indeed. The working party identified a full sweep of user groups: equity investors, loan creditors, employees, analyst-advisers, ‘the business contact group’ (in the main, suppliers, trade creditors, and customers), government, and the public (p. 17), and then enumerated their respective needs, which summed to fifteen classes of needs across all users (pp. 26-27).62 For equity investors alone, the eleven classes of needs – a formidable array – included the following two:

- Assessing the effectiveness of the entity in achieving objectives established previously by its management, its members or owners. This includes compliance with stewardship obligations.

62 That Stamp was an advocate of the wide range of users and their needs was confirmed by his recommendations in the same direction in Corporate Reporting: Its Future Evolution (Stamp 1980), which is discussed in section 5.2.
• Estimating the future prospects of the entity, including its capacity to pay dividends, and predicting future levels of investment. (p. 20)

The working party then generalized the fundamental objective of corporate reports, which was ‘to communicate economic measurements of and information about the resources and performance of the reporting entity useful to those having reasonable rights to such information’ (pp. 28, 78). Measurements for those who have a right to them, rather than a statement about what the users want to do with the information, might be regarded by some as more ‘representationalist’ than ‘functionalist’. Others might disagree.

Rutherford (2007, p. 109) has written about the working party’s fundamental objective of corporate reports as follows: ‘Unstartling as this proposition appears today, it was actually quite a radical development in the mid-1970s for a professional accountancy body – albeit at a distance – to countenance the notion that its principal product should be generally useful’. The working party then listed and discussed seven ‘desirable characteristics’ in order to facilitate implementation of the objective (pp. 28-31). Prudence was not discussed in the report’s section on desirable characteristics (pp. 28-29), but it was brought up in a later section on ‘profit concepts’ as follows (and bears the scars of compromise):

The application of the concept of prudence is clearly useful to those users concerned with assessing economic stability and vulnerability (for example loan creditors). It is likely to be less useful to those users concerned with the measurement of performance (for instance equity investors) although this will depend on the nature of the entity. (p. 65)63

What was notable about this report was that it did not recommend the traditional set of financial statements. Where the Trueblood Study Group recommended one novel statement, a statement of financial activities, which was really little more than an extension of the funds flow statement, the working party recommended a half-dozen novel statements (pp. 47-60):

• a value added statement,
• an employment report,

63 In Statement of Standard Accounting Practice (SSAP) 2, ‘Disclosure of Accounting Policies’, approved by the ASSC and issued in November 1971, prudence was said to be one of the four fundamental accounting concepts.
• a statement of money exchanges with government,
• a statement of transactions in foreign currency,
• a statement of future prospects, and
• a statement of corporate objectives.

One cannot ignore the temper of the times in which the working party was deliberating. In the middle of the 1970s, there was considerable anxiety in Britain, especially among the business elites, about the country’s political and economic future. In March 1974, Harold Wilson’s Labour Party had ascended to office, and leftist Tony Benn, the secretary of state for industry, began openly advocating a gradual nationalization of industry. The economy was in recession, inflation was rising to new heights, and the stock market had suffered a collapse (Turner 2006; Dorey 1995, chap. 4; Sandbrook 2010, chap. 16).\(^64\) The working party may have felt some obligation to suggest vehicles by which companies could show how much that business was contributing to society. Also, Hopwood and Bromwich (1984, p. 152) have testified that, ‘during the 1970s accounting in practice itself sought specifically to address its relationship to wider social interests’. The first three of the novel financial statements, enumerated above, were probably tailored to achieve that end. The value added statement could show how little the profit was in comparison to the value created. The employment report could show what companies had done for their employees, and the statement of money exchanges with government could show how much tax was paid.

After reviewing several measurement bases (historical cost, current purchasing power, replacement cost, net realizable value, net present value, and value to the firm\(^65\)), the working party concluded that no one basis was capable of meeting all user needs; therefore, financial statements ‘might use a number of appropriate measurement bases designed to meet different user needs’, that is, multi-column reporting\(^66\) (p. 71). Boothman recalls that Stamp was a particular advocate of multi-column reporting.\(^67\) Indeed, Stamp (1979b, p. 54) subsequently wrote that had been an advocate of multi-column reporting for many years and that he was the ‘principal author’ of section 7 and appendix 5 in The Corporate Report, dealing with the profit concepts and containing the proposal for multi-column reporting, respectively.

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\(^{65}\) Value to the firm is also known as deprival value. For an explanation of what is meant by deprival value, see Solomons (1966) and Parker and Harcourt (1969).

\(^{66}\) In Appendix 5, the working party gave its assessment of how each of the six measurement bases complied with criteria under the headings of theoretical acceptability, relevance to user needs, and practicality.

\(^{67}\) Interview with Derek Boothman, August 24, 2012.
On the subject of projections, the working party said that it would be ‘unrealistic to suggest that the publication of precisely quantified forecasts could form a standard part of corporate reports at the present time’. Their recommendation was that, at a minimum, the statement of future prospects should include information concerning future profit levels, future employment levels and prospects, and future investment levels (p. 56). The very suggestion in the 1970s that such projections might be a required part of the reporting package would have been ridiculed by company managements.

Ken Peasnell recalls that ‘the really big battles’ in the working party were over Stamp’s arguments in favour of multiple valuation bases and forecasts.68

As Sir Ronald Leach stated in the foreword to the report, which was modestly labeled as a discussion paper, its publication ‘closely coincides’ with the publication of the long-awaited report of the government’s Sandilands committee on inflation accounting (Report of the Inflation Accounting Committee 1975), during the highly inflationary decade. Sandilands and its recommendation of current cost accounting (derived from a deprival value model) immediately commanded the attention of the accounting profession, and it veritably eclipsed The Corporate Report (Rutherford 2007, p. 109; Edwards 1989, p. 243). Rutherford (2007, pp. 109-110) reported that in April 1976 the ASC (the ASSC had just changed its name to the Accounting Standards Committee) held a three-hour discussion of the working party’s recommendations. Although the ASC’s members had concerns about some of the recommendations, in particular the statement of future prospects, the ASC, with some reluctance, issued a statement welcoming the report. And that was the end of the ASC’s consideration of the working party’s report.69 Peasnell (1982, p. 246) has written, ‘The discussion paper has faded away into history – one suspects to the profession’s great relief’.

Stamp (1979a, p. 12) later complained that ‘it took far too long for the ASC to make up its mind to appoint’ the working party,70 and ‘there was strong opposition within the ASC to its publication’. Stamp added that ‘any enthusiasm for it among the accounting establishment was heavily muted’. He is reported to have said that the working party was set up in direct response to the slight to the profession that the accountancy bodies felt when Edward Heath’s Conservative Government, with no notice,

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68 Communication from Ken Peasnell, dated July 26, 2012.
69 In 1981, Thomas R. Watts, the ASC chairman, in an article, ‘Planning the Next Decade’, did not even mention The Corporate Report. For a further discussion of developments at the ASC in the wake of The Corporate Report, see Tweedie (1981, pp. 175-179).
70 At a conference held in September 1970, Stamp cited the ‘urgent need to begin immediately on research’ to define the objectives of financial statements’ (What Is Profit? Six Viewpoints 1970, p. 170).
announced in July 1973 the setting up of a committee (which came to be known as the Sandilands committee) to study and make recommendations on inflation accounting.\footnote{This remark by Stamp was related to me by Ken Peasnell in a communication dated July 26, 2012.}

One company, Blackwood Hodge Ltd., published an annual report which included all six of the new statements proposed by the working party, but the company’s chairman concluded that, following the exercise, he was not convinced that the benefits exceeded the costs (Rutherford 2007, p. 109). The most popular of the six recommended statements was the value added statement, and four of the five UK accountancy bodies represented on the ASC commissioned and issued research studies on the subject. The ICAEW’s research committee commissioned research on all six of the proposed new statements (Hopkins 1980, 129). The Corporate Report spawned a considerable literature on value added statements, raising issues about the broader social accountability of profit-seeking enterprise. More than one-fifth of the largest UK companies produced value added statements in the late 1970s (Burchell, Clubb, and Hopwood 1985, pp. 386-387; also see Robson and Young 2009, pp. 348-352, and Renshall, Allan and Nicholson 1978).\footnote{The value added statement has had periods of popularity in Germany and the Netherlands as well as in South Africa, and since 2007 Brazil has required listed companies to publish a value added statement.} Employment reports also achieved some popularity for a time.

The Corporate Report caught the eye of the Labour Government, which issued a Green Paper (The Future of Company Reports 1977), containing a legislative proposal for a value added statement and an employment statement. Although the Green Paper also gave support to a statement of future prospects, it said that further study was necessary before it could be introduced as a formal requirement (paragraphs 48-51). But in the election of May 1979 a Conservative Government came into office with very different ideas (Burchell, Clubb, and Hopwood 1985, p. 386; Rutherford 2007, p. 110).

The Corporate Report was, as Mike Jones (1995, p. 52) said twenty years later, ‘a landmark accounting document’, especially given how conservative and inward-looking the accountancy profession still was in the 1970s. He wrote, ‘It arguably represented the UK accounting profession’s first serious attempt to grapple with theoretical issues underpinning accounting practice’, yet it did not answer the question, ‘how should profit be measured?’

4.3. ICAS’s Making Corporate Reports Valuable (1988)
Following in the line of The Corporate Report but this time hoping to be successful in stimulating accounting reform, the research committee of the Institute of Chartered Accountants of Scotland (ICAS) contributed its own framework for accounting research in a discussion document, Making Corporate
*Reports Valuable*, also known as *MCRV* (McMonnies 1988). The committee said that it had arrived at two basic conclusions: ‘that all financial reports ought to reflect economic reality’ (paragraph 1.2) and that ‘the information which investors need in order to make proper decisions about their involvement with an entity is the same in kind, but not in volume, as the information which management need to run it’ (paragraph 1.12). Referring to the seven external users identified in *The Corporate Report* (see section 4.2) as having a reasonable right to information concerning the reporting entity arising from its public accountability, the committee said that ‘in corporate reporting we should aim to communicate directly with only four of these groups’: the equity investor group, the loan creditor group, the employee group, and the business contact group (paragraph 3.6). The committee’s list of user needs was ambitious and focused heavily on information about management’s objectives and plans. It included the following need which built on its ‘economic reality’ conclusion: ‘to know what the total wealth of the entity is now as compared with what it was at the time of the last corporate report and the reasons for the change’ (paragraph 3.11). The committee affirmed both a stewardship and future-orientated objective: ‘Investors in an entity should be interested in the stewardship of the management, but they should also be interested in future prospects. We believe that the corporate report ought to provide sufficient quantitative and qualitative information to help those users involved with the entity to make assumptions/predictions about its future performance’ (paragraph 3.17). The committee said that the list of ‘fundamental information needs’ for its four user groups ‘are essentially a digest of the needs put forward in the 1975 *Corporate Report* for the equity investor group’ (paragraph 3.14), which was a tall order indeed.

The committee did not set out any qualitative characteristics. Follow its treatment of the objectives, the committee launched immediately into a discussion of the ‘problems of present-day accounts’ followed by ‘some possible solutions’. In the end, it advocated the use of net realizable value for assets and liabilities ‘as a relevant basis for helping to appraise an entity’s financial wealth’ for the entity’s assets (paragraph 6.20). On the subject of projections, the committee said it believed that company boards should have, in most cases, a three year financial plan, and a summary of the plan in the format of a forecast financial report for the coming year, plus a forecast of cash flows, should be provided to investors (paragraphs 7.45 to 7.53). In its own way, *MCRV* was also a radical report because of its avowal of net realizable value and the publication of management forecasts.

As to prudence, the committee took a categorical stand: ‘Because it militates against economic reality, we should like to see the dropping from UK company law of the emphasis on “prudence”

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73 David Tweedie was an influential member of the committee.
(conservatism)’ (paragraph 5.10). This explicit stance on the measurement of economic reality chimes with a ‘representationalist’ viewpoint.


In 1989, David Solomons published his *Guidelines for Financial Reporting Standards*, which was a paper invited by the ICAEW research board. Conceptual frameworks had been completed in the United States and Canada (see sections 3.5, 5.3 and 5.4), and in Australia a framework was in development (see section 6.3). The International Accounting Standards Committee was well along towards publishing a conceptual framework (see section 7). But the British standard setter had not even begun one, although *The Corporate Report* and *MCRV* were steps in that direction. Yet in September 1988, Sir Ron Dearing in his report, *The Making of Accounting Standards*, which proposed creation of a new standard-setting body, said that the lack of a conceptual framework was a ‘handicap’ to those involved in setting standards and recommended that work on its development should be ‘pursued at a higher rate than hitherto’ (paragraph 7.2). A change in Britain’s standard setter from the Accounting Standards Committee to a new body thus seemed to be in the offing, and the time was ripe for someone, such as Solomons, to help provide a blueprint. He began by reviewing the ‘pervasive [descriptive] principles’ in the APB’s *Statement No. 4* but did not refer at all to the Trueblood Report or to the FASB’s *SFAC No. 1*. He said that the aim of his *Guidelines* ‘is to provide the ASC with an explicit framework, or at least parts of one, that could reinforce the implicit framework where it is found to be sound, and could replace it where it is found to be defective’ (p. 4). The *Guidelines* ‘are more concerned with long-range goals for the ASC than with what is immediately attainable’ (p. 7). He stated the following ‘purposes of financial reporting’ (he avoided the use of ‘objective’):

> The function of general purpose external financial reporting by a profit-seeking enterprise is to provide information that will be useful to a variety of users who have an interest in:
> (1) assessing the financial performance and the position of the enterprise
> (2) assessing the performance of those responsible for its management
> (3) making decisions about investing in, lending or extending credit to, doing business with or being employed by the enterprise. (p. 9)

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74 *Guidelines* was republished with a new foreword by Garland Publishing, Inc. in 1997.

75 SSAP 2 (ASSC 1971), ‘Disclosure of Accounting Policies’, while not a framework, did enumerate and discuss four ‘fundamental accounting concepts’ as well as ‘accounting bases’ to apply the concepts.
By performance he meant ‘profitability with viability’. Viability required liquidity (having enough cash flows to meet obligations) as well as socially responsible behaviour so as to avoid risking political threats to its survival.

His four primary groups of users were:

(a) present and potential investors,
(b) present and potential creditors (including suppliers),
(c) present and potential employees, and those who may act for them in bargaining situations, such as trade unions, and
(d) present and potential customers who are or may be tied to an enterprise by long-term supply contracts. (p. 10)

This roll of primary users was certainly much more expansive than that in any of the US sets of objectives, reflecting, one supposes, Solomons’ perception of a different social and economic setting in Britain than in the United States.

He said comparatively little about the users’ needs, reaching the convenient conclusion that, ‘in spite of the different weights that each of the interested groups place on the two main components of performance, their interests have enough in common to allow a single set of reports to serve their needs reasonably well’ (p. 11). The financial statements should disclose, at the least: ‘(a) the enterprise’s capacity to generate income for its owners, employees, and lenders who are entitled to interest on their loans, [and] (b) its present and probable future solvency’ (p. 13). He said he would take no position on whether forecasts should be reported and that he was not among those who recommend that financial statements should ‘provide information for making predictions about cash flows’ (p. 13). The disclosure of cash flows, he said, was for the cash flow statement.

One infers that the ‘purposes’ and ‘users and users’ needs’ section of the Guidelines did not interest Solomons as much as the remaining sections in his report. The discussion in this section was uninspired, yet, after treating elements and qualitative characteristics, he developed an argument charged with energy for his proposed accounting model, which were ‘the asset and liability view’, as opposed to ‘the revenue and expense view’, and value to the business (deprival value), coupled with the maintenance of real financial capital.\footnote{Solomons noted in passing (p. 52) that deprival value was ‘the concept that was espoused by’ the working party that prepared The Corporate Report. In fact, deprival value was one of several concepts espoused in that report, 76}
Unlike *The Corporate Report* and *MCRV, Guidelines* did not include a mention of stewardship by name, but Solomons did affirm, as stated above, the function of ‘assessing the performance of those responsible for its management’. At the outset, he stated a caveat that ‘These guidelines will largely ignore legal constraints’ (p. 7).

Solomons said that prudence is ‘a financial, not an accounting virtue’, because it is ‘incompatible with notions of representational faithfulness and consistency, which are essential characteristics of accounting information if it is to be useful’ (pp. 40-41). Evidently, his esteem for prudence diminished considerably in the eleven years since he drafted *SFAC No. 2* for the FASB (see above), unless, of course, the Board had overruled him on this point.

### 4.5. ASB’s Statement of Principles for Financial Reporting (1999)

After a long gestation period (the project was begun in 1990), the Accounting Standards Board (ASB)\(^7\) in 1999 became the first UK accounting standard setter to publish a conceptual framework, called the *Statement of Principles for Financial Reporting* because ‘the title “a conceptual framework”, would be deemed to be [off-putting] by many accountants who had not been trained in accounting theory’ (Tweedie 1996, p. 45). The ASB drafted its framework in the spirit of international harmonization:

> It is the Board’s view that a common set of principles is necessary to achieve further harmonization in international accounting practice. For that reason, the Statement of Principles is based on the International Accounting Standards Committee’s ‘Framework for the Preparation and Presentation of Financial Statements’ (the IASC Framework), which was itself derived from the Statements of Financial Accounting Concepts issued in the USA by the Financial Accounting Standards Board. (Appendix II, paragraph 1)

The ASB did not refer to any of the previous British frameworks, although, as will be seen, their influence was felt.

In its final form, the Board’s objective of financial statements (not financial reporting) was ‘to provide information about the reporting entity’s financial performance and financial position that is

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\(^7\)In 1990, the ASB succeeded the ASC as the British accounting standard setter. David Tweedie chaired the ASB from 1990 to 2000, when he was appointed to be the chairman of the IASC, to take effect in 2001, when the IASC was reorganized as the IASB. As noted above, Tweedie was an influential member of the ICAS research committee which wrote *MCRV*. 

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useful to a wide range of users for assessing the stewardship of the entity’s management and for making economic decisions’ (ASB 1999, p. 16). Of the framework documents so far issued in Britain, this was similar to MCRV in that it accorded stewardship equal standing with the making of economic decisions. It enumerated a list of potential users (elaborating on some of their needs), which was an array of user groups very similar in scope to that in The Corporate Report: present and potential investors, lenders, suppliers and other trade creditors, employees, customers, government and their agencies, and the public (paragraph 1.3). In the discussion of investors as a user class, the ASB said, ‘In its stewardship role, management is accountable for the safekeeping of the entity’s resources and for their proper, efficient and profitable use’. But beyond that, it said, investors are concerned with the ‘risk inherent in, and return provided by, their investments, and need information on the entity’s financial performance and financial position that helps them to assess its cash-generation abilities and its financial adaptability’ (paragraph 1.3(a)). Following Solomons, the ASB finessed the problem of multiple users by arguing that the investors’ need to assess cash-generation abilities and financial adaptability is also of fundamental importance to other users and thus advanced ‘the rebuttable assumption’ that financial statements focusing on investors’ needs ipso facto focus on the needs of other users (paragraph 1.11). It then proceeded to elaborate on a series of specific user needs that emerge out of the assessment of financial performance and then out of financial adaptability (paragraphs 1.13 to 1.22).

The ASB recited the usual qualitative characteristics, which included prudence among them. When discussing prudence, the ASB was careful to say that it meant ‘the exercise of the judgements needed in making the estimates required under conditions of uncertainty’ and that it was not called for when there was no uncertainty (paragraphs 3.19 and 3.20).

The ASB concluded that a mixed measurement system – either historical cost or current value – should be selected for each category of assets or liabilities (paragraphs 6.1 to 6.5). It selected deprival value, favoured by David Solomons, as its measure of current value (paragraphs 6.7 to 6.9). Also with Solomons, the ASB supported the financial capital maintenance concept (paragraphs 6.39 to 6.41). Unlike the FASB, the ASB was able to agree a single concept of current value.

4.6. Role of prudence in the British frameworks

Prudence was given limited backing in The Corporate Report but was rejected in MCRV and Solomons’ Guidelines. The role which The Corporate Report suggested for prudence was more for loan creditors.
than for equity investors. Prudence did find a place, suitably qualified, in the ASB’s *Statement of Principles for Financial Reporting*.78

5. **Canadian literature on objectives**

5.1. **Ross Skinner’s view on objectives (1972) and on the utility of conceptual frameworks (1987)**

The intellectual leader of the Canadian accounting profession, Ross Skinner, a partner in the audit firm of Clarkson, Gordon & Co., Toronto, adopted a decision-usefulness approach in his major study, *Accounting Principles: A Canadian Viewpoint* (1972). Evidently drawing mainly on *ASOBAT*,79 he undertook to ‘develop a structure for logical deduction of accounting principles’, and he advanced the following overall objective of accounting: ‘to convey information about the accounting entity that is relevant to the needs of users’ (p. 311). After considering a range of possible users, he reduced the list to one, investors, on the inductive argument that ‘existing accounting principles are primarily aimed to meet the needs of investors’. He offered two reasons why investors want (or should want) a statement of income (p. 307): as a guide to the value of their investment, and as an aid in assessing management performance. The second, of course, is the stewardship objective.

On the usefulness of conceptual frameworks, Skinner (1987, p. 649) counseled that they can have a role to play in improving practice, but patience is required80:

> it appears that attempts to state conceptual frameworks are unlikely to result in great flashes of illumination that instantly resolve areas of controversy in financial reporting. It is only if standard-setters are prepared to take an explicit conceptual framework seriously and allow its influence to guide their resolution of individual issues that it will, little by little and from precedent to precedent, gain in power and utility.

5.2. **Stamp’s recommended objectives (1980)**

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78 As noted above, David Tweedie had been a member of the ICAS research committee that produced *MCRV* in 1988. One should take note of the standing given to stewardship in the ASB’s conceptual framework. It will be mentioned in section 8 that Tweedie was one of the two dissenters to the IASB’s discussion paper on objectives that did not mention stewardship.

79 In view of Skinner’s bibliography for the chapter, which consisted of seven US works and one from Britain, a reader infers that there was little in the Canadian accounting literature to stimulate his thinking or to cite as precedent.

80 This passage was quoted with favour by Solomons (1989, p. 8).
The Canadian Institute of Chartered Accountants’ (CICA’s) Accounting Research Committee (subsequently renamed the Accounting Standards Committee and then the Accounting Standards Board) commissioned Edward Stamp, who had been an influential member of the working party in Great Britain that wrote *The Corporate Report* (1975), to undertake a study in order to generate discussion and debate in Canada, by proposing criteria for assessing the quality of accounting standards. His resulting monograph, *Corporate Reporting: Its Future Evolution* (1980), was a wide-ranging and challenging analysis, which contained daunting recommendations for the objectives of financial reports. The first statement of an objective which he gave seemed very American, in the sense that it focused on investors coupled with stewardship: ‘One of the primary objectives of published corporate financial reports is to provide an accounting by management to both equity and debt investors, not only of management’s exercise of its stewardship function but also of its success (or otherwise) in achieving the goal of producing a satisfactory economic performance by the enterprise and maintaining it in a strong and healthy financial position’ (p. 33). But on the next page he greatly expanded the objective, making it much more European (as he later pointed out): ‘an important objective of financial reporting is the provision of useful information to all of the potential users of such information in a form and in a time frame that is relevant to their various needs’ (p. 34). Leading up to this objective, he argued that ‘it is in the general economic interest of the nation that public companies should recognise the broad nature of their accountability to outsiders who include many groups other than the present shareholders and holders of long-term debt instruments issued by the company’ (p. 34).

In the next chapter, he enumerated and discussed no fewer than 15 relevant user classes, including even a company’s competitors (‘Other companies (Domestic and Foreign)’) as well as ‘Standard setters, Academic Researchers’. He based his argument for such a long list of users as follows:

\[\text{The range of user groups is much broader than that being considered by the FASB in the United States in its efforts to develop a Conceptual Framework. This is intended to reflect the fact that in many ways Canada’s social and political systems lie closer to those of Europe (where the notion of wider corporate financial accountability is more acceptable than it is in the United States) than they do to those of the United States. (p. 42)}\]

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81 Stamp trained with Clarkson, Gordon & Co. in Toronto in the 1950s, qualifying as an Ontario CA before becoming a partner in Montréal in 1962.
In the many discussions of the objectives of financial statements which I have reviewed thus far, this is the only one that exhibits a sensitivity to different cultural (social and political) systems among countries, and it is not surprising that it was written for Canada, whose economic and political system has been influenced so profoundly over the years by both Britain and the United States. A good example of this sensitivity in Canada is the CICA’s biennial survey, *Financial Reporting in Canada*, which, since its inception in 1955, has tracked the trends in financial reporting practices not only in Canada but also in comparison with those in Britain and the United States.

In the next chapter, Stamp listed and discussed thirteen classes of user needs, including: assessment of overall performance; assessment of management quality; estimating prospects for profits, dividends and interest, and six other variables; assessing financial strength and stability; assessing solvency; assessing liquidity; and assessing risk and uncertainty (pp. 48-51). Different user classes have different combinations of needs. The following chapter introduced thirteen criteria to be used when assessing the quality of accounting standards: objectivity, comparability, full disclosure, freedom from bias, uniformity, etc. He then proposed seven ‘constraints’ that may condition any of the criteria (chap. 7), and then proceeded to discuss three possible measurement bases – historical cost, replacement cost, and net realizable value – and concluded that ‘different measurement bases may be relevant to different user needs’ (p. 70). He was generous in suggesting additional company disclosures: multi-column financial statements, a supplementary statement of cash flows (which was not required anywhere in the world in 1980), a statement of the company’s return on investment, and numerical financial forecasts (pp. 98, 102, 106).

If Stamp erred, it was on the side of an almost indiscriminate inclusiveness: there is little attempt to be parsimonious in the number of recommended variables at any level of the proposed framework. Almost nothing that is conceivable is omitted, and the legacy of challenges he left for the Accounting Research Committee, a part-time body, was huge (pp. 104-106). Ross Skinner (1982, p. 167) complained about Stamp’s fifteen classes of potential users of corporate reports, and argued, with a whiff of understatement, that ‘reporting is not costless, and the more classes of users who are regarded as having rights to financial reports the more costly the reports are likely to be. So the question of breadth of user entitlement has some significance’.

A year after publishing his Canadian study, Stamp (1981, p. 240) made the curious remark that, although he wrote the study for the Canadians at their request, he was very conscious while doing it ‘of the need to ensure that the conclusions would be relevant to the problems of the British profession as well’. In 1982, he published the results of a questionnaire study of the members of the UK’s ASB, asking
them to rank the significance and meaning of the twenty criteria/constraints he had presented in his Canadian study (Stamp 1982). His aim was to infer their preferences for policy choices. Stamp said he intended to use the research outlined in the article and the conclusions from the questionnaire study as ‘the first steps in the development of an operational form of a conceptual framework for accounting’ in Britain (p. 130). It strikes me as odd that the same twenty criteria/constraints he developed for Canada could be applied without modification to Britain.

One of Stamp’s ten recommended criteria was conservatism. In his discussion, he was willing to countenance the use of prudence to recognize genuine impairment losses in the face of declining markets for a company’s products, at a time when there was no accounting standard for recognizing impairment losses. On the other hand, he counseled against using conservatism to justify a policy of ‘balance sheet conservatism, with heavy and unnecessarily large write-offs of inventories, fixed assets, etc. (often by new management in the wake of a take-over)’ (p. 65), as this will do no more than shift income from the current period to future periods. Even though Stamp cited conservatism, or prudence, as one of his criteria, he did not defend it with a cogent argument.

The broad canvass on which Stamp painted was a refreshing change from previous writings in North America about objectives. His report was unquestionably thoughtful and provocative, but too many of the ideas were not sufficiently well digested and integrated into coherent and feasible recommendations to the standard setter. Stamp wrote in the preface: ‘Of the 15 weeks in which I have been actively engaged in work on this Study only about 4 were spent in writing’. Therein lay the problem.

5.3. ASAC’s conceptual framework (1987)
The Accounting Standards Authority of Canada (ASAC), founded in 1981 and whose sponsor was the Certified General Accountants Association of Canada (a body which has been a competitor to the Canadian Institute of Chartered Accountants), issued a booklet, Conceptual Framework for Financial Reporting, in 1987. It said that its starting point was the FASB’s concepts statements but that, following public exposure and rewriting, its draft differed from the FASB’s framework in ‘several important respects’ (p. CF-viii). Its overall objective was stated as follows: ‘At the most general level, the objective of financial reporting is to provide information which is useful in making management, investment, and credit decisions with regard to the entity. The major groups of investors and creditors include their

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82 Michael Mumford (1993) questioned the feasibility of Stamp’s survey.
83 Stamp used ‘prudence’ when he approved of the practice and ‘conservatism’ when he disapproved of the practice. The reader does not know if this usage was deliberate or not.
professional advisors and other intermediaries....At the next level, the objective of financial reporting is
to present information which will assist users to forecast the probability, amounts and timing of
prospective cash flows’ (paragraphs 121 and 122). The reference to making management decisions in
the overall objective is curious and has not been found in most other decision-usefulness objectives
statements. Indeed, in section 3.5 it was stated that, in SFAC No. 1, the FASB expressly excluded
management from the set of users because it was an internal party.

ASAC said the following information was needed in order to address management stewardship
and performance: ‘Information which is useful in evaluating how well management has discharged its
stewardship responsibilities. Accountability for stewardship is broader when the entity’s debt
instruments or shares are traded by the public. A satisfactory rate of return on the net resources of the
entity is an important indicator of management performance’ (paragraph 125).

‘Conservatism’, ASAC said, ‘is an accounting convention, not a quality of accounting information,
and is not in the hierarchy of accounting qualities [for implementing the objectives]’ (paragraph 270).
ASAC associated conservatism with ‘deliberate bias’, which, it said, ‘is not logical in a measurement
discipline. The prudent reaction to uncertainty is to capture as accurately as possible the uncertainties
which prevail in a given situation’. Obviously, to ASAC ‘conservatism’ had acquired an unsavory
reputation.

Alan J. Richardson has written that, while ASAC’s conceptual framework received some notice in
the accounting literature, it ‘was not seen as significantly different from the FASB conceptual
framework’ (2011, p. 106). The CICA, for its part, officially ignored it.

5.4. AcSC’s financial accounting concepts (1988)
In 1988, the CICA’s Accounting Standards Committee (AcSC) issued a statement of financial accounting
concepts (section 1000 of the CICA Handbook). Closely following the FASB’s conceptual framework (after
a time lag of several years) and thus not carrying forward Stamp’s ambitious proposals, it stated that the
objective of financial statements (not financial reporting) ‘is to communicate information that is useful
to investors, creditors and other users in making resource allocation decisions and/or assessing
management stewardship. Consequently, financial statements provide information about’:

(a) an entity’s economic resources, obligations and equity;
(b) changes in an entity’s economic resources, obligations and equity; and
(c) the economic performance of the entity. (¶1000.12)
It added, à la Trueblood and SFAC No. 1, that ‘Investors and creditors are interested, for the purpose of making resource allocation decisions, in predicting the ability of the entity to earn income and generate cash flows in the future to meet its obligations and to generate a return on investment’ (¶1000.10). It made the further point that ‘Investors also require information about how the management of an entity has discharged its stewardship responsibility to those that have provided resources to the entity’ (¶1000.11). It then added the usual qualitative characteristics: understandability, relevance, reliability, and comparability (¶1000.15). Under the head of relevance, AcSC said that, ‘Although information provided in financial statements will not normally be a prediction in itself, it may be useful in making predictions’ of ‘future income and cash flows’ (¶1000.17(a)). AcSC included conservatism as a subhead under reliability, saying, ‘Use of conservatism in making judgments under conditions of uncertainty affects the neutrality of financial statements in an acceptable manner....However, conservatism does not encompass the deliberate understatement of net assets or net income’ (¶1000.18(d)).

By the time the financial accounting concepts reach ‘measurement’, the discussion became descriptive of practice and was no longer normative (¶1000.44 to .46).

The ASC’s statement was terse, occupying only 47 paragraphs in nine pages. It seemed a half-hearted effort. Price Waterhouse commented that it met with general apathy within the profession (1988, p. 7).

Prior to 1988, the closest approximation in the CICA Handbook to an objective of financial statements was the assertion that ‘Financial statements should be prepared in such form and use such terminology and classification of items that significant information is readily understandable’ (¶1000.08, dated 1969 with an editorial change in 1980). In one brief sentence, the users were identified as ‘investors, creditors, governments and society generally’ (¶1000.02 dated 1974).

6. Australian literature on objectives
6.1. Views of prominent authors
Alec (later Sir Alec) Fitzgerald, a distinguished public servant, academic, and intellectual leader of the Australian accounting profession, was one of the truly forward thinkers in accounting. His Current Accounting Trends (1952, chap. 3) and his and L. A. Schumer’s Classification in Accounting (1962, chap. 2) contained discussions of the purposes and uses of published financial statements of business enterprises which were in advance of their time. In the latter work, they stated that the parties

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84 For an article explaining AcSC’s ‘milestone’ achievement on financial accounting concepts, see Walker (1988).
interested in the accounting information dispensed by a business enterprise are its proprietors, investors, and creditors (p. 30). The information ‘should be sufficiently detailed and sufficiently well classified to aid the parties in forming judgment as to’ –

(a) the skill and ability with which the enterprise has been conducted by its managers;
(b) the value of the owner’s share in the enterprise or (in the case of creditors) the degree of risk involved in extending credit to the enterprise; and
(c) whether the investment in the enterprise should be sold or (in the case of creditors) the credit given to it should be withdrawn, restricted or increased. (p. 30)

Russell Mathews (1962, p. 4) wrote in his textbook, *Accounting for Economists*, ‘The major purpose of accounting is to provide information to interested parties regarding the nature and significance of economic transactions’. As examples of interested parties, he gave ‘proprietors or shareholders’ and ‘management’. In 1971, Errol Iselin (p. 58), after a thorough survey of the American literature on the objectives of accounting, including *ASOBAT* but not the APB’s *Statement No. 4* or the writings of Staubus, concluded, ‘The objectives of accounting are to communicate information to decision makers to aid in their decisions regarding entities’. Neither Mathews’ nor Iselin’s objectives mentioned stewardship by name, although Mathews did refer to ‘proprietors or shareholders’ as interested parties. In 1975, Allan Barton wrote in his textbook, *The Anatomy of Accounting* (p. 5), ‘We shall use “accounting” in its broad sense of an information-gathering and reporting system for use in making economic decisions and overall plans for the future, for evaluating past activities, and for controlling activities’. Barton thus brought in stewardship. Both Mathews and Barton were innovative textbook authors, the latter holding a Ph.D. in economics.

In 1988, Greg Whittred and Ian Zimmer introduced the agency theoretic framework into the Australian textbook literature. Drawing on Watts (1977), they argued that agency theory was a twist on stewardship in that it focused attention on the inherent conflicts of interest between shareholders (the principals) and company management (the agents) and on the shareholders’ consequential need to engage in contracting with the management. The purpose of the contracting was to specify in advance the financial reporting and auditing needed as part of the mechanism for restricting the actions of the management, so that they would not deviate from those required by the shareholders (pp. 10-12). They argued that ‘financial statements do not have objectives: they have functions’ and that ‘the function of financial statements is to reduce agency costs’ (p. 11). The authors were dubious of the value of
conceptual frameworks and ventured their belief that they ‘are a means of increasing the rule-making legitimacy of private sector regulators and hence are a mechanism by which political costs might be reduced’ (p. 15).\footnote{Solomons (1986a, p. 116) gave this same argument in support of a conceptual framework: ‘I know of no better way to reduce accounting’s vulnerability to political pressure’. See the quoted statement from former FASB Chairman Donald Kirk in section 3.5.1.}

### 6.2. Invited views by the Research Foundation

In 1972, John W. Kenley and George Staubus, who was in Australia for three months at the invitation of the Accountancy Research Foundation, completed a research study for the Foundation, *Objectives and Concepts of Financial Statements*. Kenley wrote Part One of the study, and Staubus wrote Part Two. Staubus recommended the following objective of accounting: ‘To provide financial information about the economic affairs of an entity for use in making decisions’ (p. 37). ‘Shareholders and potential shareholders’, he said (after reviewing a larger set of external users), ‘are clearly recognized as the main users of published financial reports. Their investment decisions – to buy, sell or hold – should be the primary consideration of accountants who prepare (or audit) financial statements for publication. Shareholders also need financial information to help them decide how to vote at annual meetings, especially on the election of directors, the adoption of the annual accounts, and the approval of the dividend, all [of] which are based partly on an appraisal of management’s performance’ (p. 49). Here is the stewardship objective. Shareholders, he added, are interested in predicting their cash receipts (dividends) from the entity, and they look to profit and other financial statement data as evidence of the firm’s future cash flows (pp. 43, 51). This analysis drew heavily on Staubus (1961).

Allan Barton prepared a monograph, *Objectives and Basic Concepts of Accounting* (1982), for the Australian Accounting Research Foundation.\footnote{The Accountancy Research Foundation was renamed the Australian Accounting Research Foundation (AARF) in 1975.} After surveying the APB’s *Statement No. 4*, the Trueblood Report, and the FASB’s *SFAC No. 1*, as well as other literature, he concluded that ‘The major role of published financial reports is to provide equity and loan investors and their advisers, and the capital market generally, information about the company’s operations and its resources and obligations for accountability purposes. A secondary role of published financial reports is to assist investors with forecasting and decision making’. It is interesting that Barton, as late as 1982, placed accountability reporting first. He added, ‘The accountability function encompasses custodianship of the financial resources provided by investors, the obligation to earn an adequate rate of profit on investment, and
the obligation to preserve the company’s resources to protect creditors and to ensure its ability to carry on business operations in the future and hence earn future income’ (pp. 58-59). This was an expansive notion of accountability, or stewardship, as he also called it.

6.3. SACs 2 and 3 (1990)
In 1990, the private-sector and public-sector accounting standard-setting bodies issued *Statement of Accounting Concepts 2* (SAC 2), ‘Objectives of General Purpose Financial Reporting’, their first objectives statement. As Australian standards were sector-neutral, their statements were intended to apply equally to entities in both the private and public sectors. Their overall objective was: ‘General purpose financial reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources’ (paragraph 43). A supplementary objective was presented on accountability: ‘Managements and governing bodies shall present general purpose financial reports in a manner which assists in discharging their accountability’ (paragraph 44). As to the uses of financial information by resource providers in the profit-seeking private sector, they said, ‘In the case of investor-owned business entities, investors and other resource providers will want to know whether the entity is operating profitably and generating favourable cash flows in the process, since their decisions relate to amounts, timing and uncertainties of expected cash flows’ (paragraph 21). Hence, the Australian standard-setting boards adopted the decision-usefulness approach.

Also in 1990, the standard-setting bodies issued SAC 3, ‘Qualitative Characteristics of Financial Information’, in which, under the heading of reliability, they distinguished ‘prudence’ from ‘conservatism’ – yet another in the series of conceptual frameworks discussed in this article where different meanings have been attributed to the two terms. In paragraph 25, prudence was acknowledged as having been cited often in the accounting literature, where it has been explained ‘in terms of the need to exercise care when dealing with uncertainties in the process of recognition and measurement’ and thus was said to be ‘subsumed in that of reliability’, which means that it was an acceptable criterion as a part of reliability but not as an additional criterion. In paragraph 26, it was said that ‘the concept of conservatism, where it is understood to lead to a deliberate bias toward understatement of revenues or assets and/or maximum recognition of expenses or liabilities, is at odds with many of the desirable qualitative characteristics, including reliability. On the other hand, conservatism is sometimes defined or used in an acceptable manner; that is, when it is synonymous

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87 SAC 2 (and SAC 3, mentioned below) were prepared by the Public Sector Accounting Standards Board of AARF and by the Australian Standards Review Board.
with reliability’. And then it said, after employing the term, ‘The Statement does not employ the term’, that is, conservatism.

The standard setters did get not far enough through their conceptual framework project to issue an exposure draft on measurement bases.

Scott Henderson and Graham Peirson (1994, p. 6) assessed the documents constituting the conceptual framework up to then as follows: ‘The documents do not codify existing practices and are, therefore, not descriptive. Nor are they merely adaptations of the United States conceptual framework which has both descriptive and prescriptive aspects. The Australian conceptual framework is prescriptive and seems likely to result in significant changes to Australian financial reporting’.

The International Accounting Standards Committee’s (IASC’s) Framework for the Preparation and Presentation of Financial Statements, issued in 1989, its conceptual framework, was said to be ‘strongly reminiscent’ of that of the FASB (Camfferman and Zeff 2007, p. 260). Prior to 1989, the FASB was the only national standard setter to have completed a normative framework.

The IASC’s stated objective of financial statements (not financial reporting) was ‘to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions’ (paragraph 12). These economic decisions, it added, ‘require an evaluation of the ability of the entity to generate cash and cash equivalents and of the timing and certainty of their generation’ (paragraph 15). While such financial statements ‘meet the common needs of most users’, they ‘do not provide all the information that users may need to make economic decisions since they largely portray the financial effects of past events and do not necessarily provide non-financial information’ (paragraph 13).

Stewardship reporting was covered but not as expansively as in the FASB’s SFAC No. 1. But while the IASC placed the treatment of stewardship right at the front of the Statement (the third of the ten paragraphs in the section on ‘the objective of financial statements’), it was not broached in SFAC No. 1 until paragraph 50 (in a 56-pagagraph statement). The IASC said the following about stewardship: ‘Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. Those users who wish to assess the stewardship or accountability of management do so in order that they may make economic decisions; these decisions may include, for example, whether to hold or sell their investment in the entity or whether to reappoint or replace the management’ (paragraph 14).
The IASC’s list of users in paragraph 9 included investors, employees, lenders, suppliers and other trade creditors, customers, government and their agencies, and the public. The IASC said it presumed that, notwithstanding the number and range of users, most of their needs were common to all. It added, ‘As investors are providers of risk capital to the entity, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy’ (paragraph 10).

The IASC’s list of qualitative characteristics followed those in the preceding frameworks fairly closely, with changes of emphasis here and there. Prudence appeared as a sub-quality under reliability. The IASC defined it as ‘the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated’ (paragraph 37). It added that prudence does not allow for the ‘deliberate’ understatement of assets or income or overstatement of liabilities or expenses, because this would violate neutrality, which was another sub-quality under reliability.

Like the FASB before it, the IASC was unable to secure agreement on a recommended valuation basis.

The IASC’s Framework was adopted by the IASB in April 2001. The joint IASB/FASB conceptual framework, issued in 2010, will be treated in the next section.

8. IASB/FASB’s Objective of General Purpose Financial Reporting (2010)

In September 2010, as part of their joint conceptual framework project, the International Accounting Standards Board (IASB) and the FASB issued chapter 1, ‘The Objective of General Purpose Financial Reporting’, and chapter 3, ‘Qualitative Characteristics of Useful Financial Information’. The FASB labeled its document, Statement of Financial Accounting Concepts No. 8 (SFAC No. 8), and the IASB’s document was entitled The Conceptual Framework for Financial Reporting 2010.

Both boards had issued a discussion paper (Preliminary Views) in July 2006 and an exposure draft in May 2008. Neither board held a public hearing. The boards’ final statement of the objective was as follows: ‘The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity’ (paragraph OB2, footnote omitted). They added, ‘Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit’ (paragraph OB2). They then said that users’ decisions depended on ‘the returns that they expect from these instruments’ and that their ‘expectations about returns
depend on their assessment of the amount, timing, and uncertainty of (the prospects for) future net 
cash inflows to the entity’ (paragraph OB3).

Whereas, as discussed below, some IASB members wanted stewardship to be shown as a 
separate objective, the boards in the end decided that it should instead be integrated into the overall 
statement of objective: ‘To assess the entity’s prospects for future net cash inflows, existing and 
potential investors, lenders and other creditors need information about the resources of the entity, 
claims against the entity, and how efficiently and effectively the entity’s management and governing 
board have discharged their responsibilities to use the entity’s resources’ (OB4, footnote omitted). One 
notes here the allusion to stewardship even though this term appears nowhere in the 21 paragraphs of 
the statement of the objective. Stewardship was mentioned by name and discussed only in the basis for 
conclusions (BC1.24 to BC1.28), where it was stated that, while stewardship had been accorded 
separate attention (and had been named) by both boards in their previous conceptual frameworks and 
also in the exposure draft (but not in the preceding discussion paper), the boards said in chapter 1 that 
stewardship should be folded into the overall objective and not be shown as a separate objective. They 
said that dealing with stewardship separately was an unnecessary duplication in the previous text, yet 
they affirmed that assessing prospects for future cash flow and assessing the quality of management’s 
stewardship were of equal importance (BC1.27). The curious reason given by the boards for not 
referring to stewardship by name in the ‘objective’ portion of the chapter was: ‘because there would be 
difficulties in translating it into other languages’ (BC1.28). This was a polite way of saying that there 
were so many different meanings of stewardship that it could not realistically be a separate objective. 
Yet the mention of stewardship several times in the basis for conclusions would still give rise to a 
translation issue. ‘Accountability’ was not mentioned in the chapter.

In the board’s listing and discussion of qualitative characteristics in chapter 3, reliability as used 
in SFAC No. 2 was dropped, and faithful representation was elevated to take its place. Prudence 
(conservatism) had been a subheading under reliability in SFAC No. 2, but the boards did not consider it 
to be an aspect of faithful representation (paragraph BC3.19), because it would be inconsistent with 
neutrality and could lead to bias (paragraphs BC3.27 and BC3.28). Hence, prudence was dropped from 
chapter 3. IASB Chairman Hans Hoogervorst said in a speech in September 2012 that one reason for 
dropping prudence ‘was convergence with US GAAP, which did not have a definition of Prudence. More 

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generally, many felt that in practice the concept of Prudence was often used as a pretext for cookie jar accounting.\footnote{Hans Hoogervorst, ‘The concept of prudence: Dead or alive?’ 18 September 2012, accessible at http://www.ifrs.org/Alerts/PressRelease/Documents/2012/Concept%20of%20Prudence%20speech.pdf.}

Two IASB Board members, Chairman David Tweedie and Geoffrey Whittington, had filed ‘alternative views’ (anonymously, but their identities soon became known) at the end of the discussion paper, saying, ‘They would prefer stewardship to be identified as a separate objective of financial reporting’ because they believed that the information needed to monitor management performance, ‘produced as a by-product of the decision-usefulness objective, may be inadequate to meet the objective of stewardship’ (FASB 2006, paragraphs AV1.1 and AV1.7). Both Tweedie and Whittington are from Britain and were the chairman and a member, respectively, of the UK’s ASB, which, as was seen in section 4.5, accorded stewardship and the making of economic decisions equal standing in its Statement of Principles issued in 1999.\footnote{Whittington (2008a, pp. 143-145) provided a statement of his views on stewardship within the framework of the objective of financial reporting. A third Board member, Anthony Cope (also of British upbringing and education who had made his professional career in the United States), voted against the discussion paper for the same reason, but he chose not to join Tweedie and Whittington in their dissent. Communication from Anthony Cope, dated September 19, 2012. The historical role of stewardship in Britain was discussed in section 4.1.}

Yet Todd Johnson, a long-time senior technical advisor at the FASB who was heavily involved in the drafting of the framework until his retirement in January 2009, recalls, ‘We at the FASB queried the stewardship/accountability proponents time after time as to exactly what additional information would be included in the financial statements/reports as a result of including a stewardship/accountability perspective that wouldn’t already be included based on the decision usefulness perspective. I don’t recall that the proponents were able to cite any specific examples, which of course raised real doubts about the need for making stewardship an explicit part of the objective’.\footnote{Communication from Todd Johnson, dated August 26, 2012.}

Whittington (2008b, p. 498) has written, contrary to the views of the sceptics of objectives cited in section 3.5.1, that ‘No issue could be more important for the international harmonisation of financial reporting than starting from a commonly accepted objective’. He cited specific implications of the omission of stewardship as a separate objective for the follow-on chapters of the boards’ proposed conceptual framework. As an example, writing about the boards’ proposal (which eventually was made
in chapter 3 to replace the concept of ‘reliability’ with the concept of ‘representational faithfulness’, he said, ‘The latter is concerned with capturing the substance of an economic phenomenon, whereas the former suggests a concern with data suitable for the monitoring role of a principal’ (p. 500). ‘Equally’, he went on, ‘prudence, which was previously part of the IASB’s framework is now excluded on the ground that it gives rise to bias. Prudence reflects a degree of caution designed to counteract the agent’s incentive to report an optimistic view: this is well established in accounting standards through the requirement for impairment tests, which require losses of value below carrying amount to be reported, but not gains above carrying amount’ (pp. 500-501).

Whittington undertook to explain the ‘cultural origins’ of stewardship as between the United States and Europe (p. 499, footnotes omitted):

Support for stewardship has come most strongly from Europe. The reason for this is probably that the USA has the deepest and most liquid capital markets, including the market for corporate control, so that disciplining of management takes place primarily through the capital market. More specifically, the threat of take-over and the rewards of stock options and other market-related payments are the primary influences on management of listed companies in the USA. In Europe, on the other hand, there are different traditions of corporate governance, relying more on direct controls such as the exercise of voting rights and legal powers and less on market sanctions, such as the market for corporate control.

I will return to this theme in section 9.

Overall, apart from the treatment of stewardship, chapter 1 of SFAC No. 8 was similar to SFAC No. 1, and it was better written.

From the US side, there has been an unbroken line of statements of objectives reflecting the decision-usefulness approach from ASOBAT in 1966 through to the APB’s Statement No. 4, the Trueblood Report, SFAC No. 1, and SFAC No. 8. A statement of objectives has become a staple in the series of US utterances (including jointly with the IASB in 2010) on the conceptual underpinnings of accounting (since the early 1970s called conceptual frameworks), but, as indicated in section 3.5.1, questions have been raised about their role in contributing to the improvement of practice or meaningfully influencing the standard-setting process.

9. A summary on objectives in Continental Europe
This review and analysis of the literature on the objectives of financial reporting (or financial statements) has so far been confined to English-speaking countries – the United States, Great Britain, Canada, and Australia – as well as to the IASC and IASB. There has also been a literature in other countries, including those in Continental Europe, on the purposes and uses of financial statements, styled very much as we have seen in the United States prior to the advent of ‘decision usefulness’.

While it is difficult to make general statements on the extent to which ‘objectives’ were discussed in the literature on the Continent in the early twentieth century, it seems fair to say that, to the extent objectives were discussed, the predominant starting point was formed by the relevant legal requirements. One may cite the seminal reference work of Herman Veit Simon, *Die Bilanzen der Aktiengesellschaften und der Kommanditgesellschaften auf Aktien* (The Balance Sheets of Stock Companies and Partnerships Limited by Shares) (1899), originally published in 1886, whose influence extended well beyond the German-speaking countries. Simon opens his book with a discussion of the 'objectives' (*Zwecke*) of the financial statements of limited liability companies, by discussing their various roles in private, criminal, and tax law (pp. 1-2).

It is difficult to generalize about Continental Europe, because each country has had its own laws and accounting traditions and cultures. Nonetheless, a number of the countries have had some common features. John Flower (2004, chap. 2) has enumerated a broad array of functions that company financial statements have historically fulfilled in Europe:

- The maintenance of capital – the regulation of dividends
- The monitoring of management – stewardship
- Information for investors
- Information for the state
- Information for employees
- Information for the general public
- Computation of tax

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92 One can say about the United States that the objectives of financial reporting have been framed by the aim of the Securities Acts and therefore of the SEC, which is investor protection, meaning investors in equity and debt securities.

93 I am grateful to Kees Camfferman for supplying this reference.
This is a very general summary of functions/users. These seven classes do not apply equally to every country, and their relative importance in each country will have varied significantly over time as well. In some countries they do not apply at all today but may have applied at one time in the past.

When discussing capital maintenance, Flower raises the principle of prudence. He writes that prudence has had ‘a very great influence on the practice of accountants in certain European countries; in fact one may characterise it as the guiding principle in Germany and in countries with close cultural and economic ties to Germany, such as Austria and Switzerland’ (p. 32). A study conducted by FEE (1997, p. 43) also mentioned the Czech Republic and Luxembourg as being in the same category as Germany in regard to the importance of prudence. The ‘prudence principle’ was stipulated in the EEC’s Fourth Company Law Directive, which said *inter alia*: ‘account must be taken of all foreseeable liabilities and potential losses’ (FEE 1997, p. 41).94 Even with the adoption of International Financial Reporting Standards (IFRS) by listed companies in their consolidated statements beginning in 2005 (see below), accountants probably still exhibit a conservative (prudent) attitude, carried over from pre-IFRS times.95

Flower writes that provisions permitting the payment of dividends only when capital is maintained have had ‘little practical value in protecting creditors’ (p. 31). A working group of the Schmalenbach-Gesellschaft (Working Group 1995, p. 97) has expanded on this issue: ‘From a historical perspective, the oldest established objective in financial statement preparation [in Germany], which is also reflected in the [EU] directives, is the protection of creditors, especially from fraudulent bankruptcy. In the interest of creditor protection a complete presentation of all assets and all liabilities and a conservative valuation are needed’. Flower confirms: ‘Germany gives great weight to the prudence principle, considering it to be the basis on which the whole structure of financial reporting is built’ (2004, pp. 107-108).

Stewardship reporting has meant that managements are obliged to make periodic reports to shareholders to assure them that management has ‘managed the corporation’s affairs honestly and efficiently, preserving and, if possible, increasing the funds entrusted to them by the shareholders’ (Flower 2004, pp. 12-13).

Providing information to investors had historically not been a primary issue in Continental Europe. After 1967, when France established the Commission des Opérations de Bourse (COB), its stock market regulator (the first in Europe), listed companies were apprised of reporting issues of importance

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94 FEE (1997) compared the conceptual frameworks of the 15 EU countries plus the Czech Republic, Norway, Hungary, and Switzerland.
95 For a discussion of the motives and opportunities for previous accounting attitudes to persist after countries adopt IFRS, see Nobes (2006).
to investors, and the COB ‘demanded consolidated accounts from corporations that raised new capital’ long before such statements were required by law (Flower 2005, p. 87). The EEC/EU member states incorporated the Seventh Company Law Directive (requiring consolidated financial statements when companies have subsidiaries) into national legislation from the 1980s onwards. Attention thus shifted to the dual roles of the consolidated statements and the company’s separate accounts, or, otherwise put, the parent company financial statements. The legal requirements that dividend declarations provide for capital maintenance and that taxation be linked with the financial statements have always applied to the separate accounts. For investors, the consolidated statements have been of paramount importance, but other user groups were likely to focus on both the separate accounts and the consolidated statements, depending on the issues uppermost in their minds at the time. In the separate accounts, one can expect to find a more pronounced bias towards conservatism because of the influence of taxation.

In the 1990s, the repercussions from Daimler-Benz’s move to the New York Stock Exchange in 1993 and follow-on capital market developments in Germany prompted the European Commission to begin focusing on the need to create a world-class capital market in the EU, which led eventually to the IAS Regulation, requiring that EU listed companies adopt IFRS in their consolidated statements beginning in 2005 (Zeff 2012, pp. 817-818). Hence, views evolved in Europe towards a much greater degree of consensus with the Anglo-American orientation, namely, that investor information is of primary importance in financial reporting.97

How activist will be the state, as a user of a company’s financial statements, depends on the country, its economic health, the international economic climate, the national importance of the company or bank, and whether the company is facing a hostile takeover attempt. In some countries, such as France and Italy, the state may, for major banks or companies in distress, more readily exert political influence on a company (or on behalf of a company) than in other countries. In times of economic crisis, as we have been seeing since 2008, the state will intervene powerfully in the case of banks at risk in any country, and that includes the United States.

In regard to reporting information to employees, Belgium went so far as to approve a Royal Decree in 1973 which created workers’ councils and required companies to provide considerable economic and financial information to employees (Jorissen and Stabel, 2010, pp. 19-20). Lefebvre and

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96 For more on the early influence of the COB, see Lande and Scheid (1999, pp. 93-94).
97 Alfred Rappaport’s Creating Shareholder Value (1986), which led the movement beginning in the 1980s towards placing emphasis on ‘shareholder value’, has had an impact on management and academic thinking in Germany, the Netherlands, and perhaps elsewhere in Europe. See Coenenberg (2003), Busse von Colbe (1997, p. 271), and Gelderloos, Groeneveld and Verhoog (1994). I am grateful to Rolf Fülbier and Kees Camfferman for these references.
Flower (1994, p. 197) have written, ‘The workers’ councils, supported by the trade unions, were in fact more concerned that better information should be disclosed by a company than were shareholders’. The broadening of the set of stakeholders in response to an aroused interest in social accountability began to develop in Europe in the 1970s (Hopwood and Bromwich 1984, p. 152; Glaütier 1977), as epitomized in *The Corporate Report*, which was discussed in section 4.2. In Germany and Austria, employees are, by law, represented on the supervisory board which oversees the management of companies and therefore are important users of the company financial statements. Walther Busse von Colbe (1984, p. 103) has written that ‘employees of the firm, trade unions and banks often have a better and stronger representation [in the supervisory board] than do shareholders’. But by 2004 (p. 39) Flower would write that, ‘in most European countries, enterprises attach little importance to reporting to employees. In some countries there is no legal obligation on a corporation to provide its employees with information, except in certain relatively unusual situations defined under EU law, for example when the enterprise is planning a major reorganization. In those countries, where there is an obligation, corporations generally fulfil it by providing their employees with copies of the reports that they have prepared for the benefit of shareholders, that is, reporting to employees is treated as a by-product of reporting to shareholders’.

On the matter of income taxation it is not easy to make generalizations, as the connection between tax and financial reporting ‘is not “all or nothing” but varies on a continuum from one period to another and from one country to another’ (Nobes and Schwencke 2006, p. 63). Yet one can say that the Netherlands, and today Sweden, have much less of a connection than do most other countries, in particular Germany (Haller 1992). Even the United States has a connection via the LIFO inventory method of inventory valuation, which must be used for financial reporting purposes if used for federal income tax purposes.

The Netherlands, a civil code country whose financial reporting has, to a considerable degree, reflected influence from English-speaking countries as well as from the Continent, is an interesting case study. Following the Second World War, public sentiment was becoming critical of inward-looking industrial companies, which were obliged under a 1929 law to report only a balance sheet with skeletal contents and a profit and loss statement with no required contents, with no requirement for an audit, and most companies had been giving little more. To counter this criticism, in 1955 and 1962 the employers’ federations sponsored two major reports which called for greater financial publicity, the use of current cost accounting, the greater use of consolidated statements, and the outlawing of secret and undisclosed reserves. The idea gained ascendancy that the financial statements should give a ‘faithful
picture’ (getrouw beeld), or an ‘insight’ (inzicht), into the affairs and operations of the company. Eventually, following two further reports in the same general vein emanating from major political parties, a new law in 1970 mandated more extensive financial disclosure in the financial statements of listed companies, including the requirement to prepare audited, consolidated financial statements. In addition, the law established an Enterprise Chamber, a law court which was the first of its kind, to adjudicate claims by shareholders and other interested parties (such as employees) that a company’s financial statements were in contravention of the law. The government also stimulated the formation of a Tripartite Study Group (Tripartiete overleg), composed of representatives of the employers’ federations, the audit profession, and trade unions, which was the first private-sector accounting standard-setting body on the Continent (Zeff, Van der Wel and Camfferman 1992, chaps. 3 and 4; Klaassen 1980).

Flower (2004, p. 44) compares Continental Europe with the United States: ‘The position of the USA is fundamentally different. In effect, in that country, only one function is recognized: the investment function’. One reason, he says, why the FASB gives priority to investors is that it believes information provided to meet the needs of equity investors and creditors will generally be useful to other groups. Another reason, as suggested above, is the influence of the Securities Acts and the SEC, whose aim is to protect investors. Stamp (1981, p. 240) has drawn another comparison: ‘American standard setters are preoccupied with the needs of investors [of publicly traded companies]; in Europe we are more accustomed to thinking of a much wider constituency of users of the published financial reports’. Stamp expressed this view before the advent of the Seventh Company Law Directive and more than two decades before the requirement that EU listed companies adopt IFRS in their consolidated statements.

In Continental Europe, practice varies from country to country whether separate accounts for the parent company are published in the same annual report to shareholders as the consolidated statements and are therefore widely accessible to the interested parties. In Germany, for example, the big listed companies have largely discontinued this practice, instead posting them on their company website. By contrast, in Great Britain the parent company’s balance sheet is published in the annual report to shareholders. In the United States and Canada, it is unknown for the parent company’s financial statements to be published in the annual report. In Australia, listed companies are required only to publish summary financial information about the parent company in their annual report to shareholders.
10. Conclusions
After the foregoing review of statements of objectives for the primary users of financial reports contained in the series of conceptual frameworks in four English speaking countries and at the international level, one may ask what progress in accounting thought on objectives has been achieved. Their authors have provided only a general indication, and usually not even that, of how they have improved on the previous frameworks. At one extreme, we know that the committee that wrote ASOBAT in 1966 did not consult any literature at all. Of the other three statements issued in the United States, only the Trueblood Report and the FASB’s discussion memorandum published in 1974 leading up to its SFAC No. 1 provided evidence that they drew on previous literature, including the preceding frameworks. But neither of these two reports evinced how the previous literature had influenced its objectives. As suggested above, one cannot underestimate the influence of the SEC in the authors’ thinking. In the series of statements issued in Great Britain, ICAS’s research committee made clear that it drew on The Corporate Report when discussing the user groups and user needs, and the ASB said it patterned its Statement of Principles on the IASC’s Framework, which, in turn, was much influenced by the FASB’s SFAC No. 1. Canada’s ASAC amply set out its considerable debt to the FASB’s SFAC No. 1. The other statements of objectives have not helped the reader to appreciate the evolutionary line. Since the 1960s, the statements of objectives in the reports and frameworks have varied in phrasing and emphasis from one to the next, but is this a sign of progress towards an improved understanding?

When comparing frameworks in the United States with those in Great Britain, one must have regard for the influence of the SEC in the former. The committee that produced ASOBAT was reproved by the SEC chief accountant for recommending the use of current cost accounting, and the APB, perhaps not wishing to cross the SEC, declined to be normative, even in a non-binding Statement, on the issue of the valuation basis. The Trueblood Report, to be sure, recommended consideration of three valuation bases in addition to historical cost, but it was an advisory body, not a standard setter. For its part, the FASB could not resolve which valuation basis or bases to recommend in the measurement phase of its framework. In the United States, precisely because of the SEC’s undiminished support of historical cost accounting for tangible assets since the 1930s, accounting professionals have had little experience with, and probably have read very little literature on, other valuation bases. In the United States, the standard setter is accountable to the SEC, and it looks to the SEC to enforce its standards. By contrast, all four British frameworks recommended the use of one or more valuation bases other than historical cost, or with historical cost. One can only speculate how the close monitoring by the securities market regulator in the United States, coupled with weak state corporation laws, may have influenced other sections of
the US frameworks, including the confinement of the primary user group to investors and creditors and the place of stewardship among the objectives. At the very least, one concludes that the United States seems to be an environment which is not hospitable to genuine innovation in financial reporting.

Several individuals have played roles in two or more frameworks. Future students of the comparative analysis of frameworks should be cognizant of these intellectual ‘linchpins’. George Sorter was a member of the ASOBAT committee and was also the research director for the Trueblood Report. Oscar S. Gellein, not mentioned above, served on the Trueblood Study Group and on the FASB from 1975 to 1978, when it issued SFAC No. 1. David Solomons drafted SFAC No. 2 for the FASB in 1980 and composed his Guidelines for the ICAEW in 1989. Warren McGregor, also not mentioned above, was executive director of one of the two bodies that brought out SACs 2 and 3 in Australia in 1990 and also served on the IASB from 2001 to 2011, during the development of the IASB/FASB’s framework. And David Tweedie was a member of the ICAS committee that wrote MCRV in 1988, and he chaired both Britain’s ASB from 1990 to 2000 and the IASB from 2001 to 2011.

The Corporate Report, issued in 1975 in Great Britain, has been by far the most innovative and enterprising of the frameworks, and it reflected a much broader vision of social accountability than the investor-creditor focus which has been predominant in the United States. It was uniquely a product of the 1970s, and its like, at least in the English-speaking standard-setting community, probably will not be seen again.

The question must be raised whether the identification of the objectives of financial reporting (or financial statements) is all that consequential (a) for determining what follows in the framework, (b) for decisions made subsequently by the standard setter on specific standards or interpretations, and (c) for decisions made by companies and auditors on recognition and measurement issues when authoritative guidance is lacking or unclear. The views of American sceptics of the meaningfulness of statements of objectives were rolled out in section 3.5.1, yet Whittington (2008b) has advanced an argument, discussed in section 8, that the failure of the IASB and the FASB, in their joint conceptual framework (only proposed at the time of his argument), to accord stewardship separate standing as an objective led to an important change later in the framework. Further argument and evidence on the apparent influence of statements of objectives would enrich this literature.

The role of stewardship in the conceptual writings and frameworks has varied, partly depending, it seems, on how the term was defined. Its meaning has varied from being purely custodial to being an indicator of management effectiveness in generating a return to shareholders. As the meaning approaches the latter limit, it is tempting to conclude that stewardship should be folded into the overall
decision-usefulness objective. Prior to completion of the initial chapters of the joint IASB/FASB framework of 2010, all of the previous frameworks in the decision-usefulness mode provided an explicit place for stewardship in their statements of objectives. As the emerging IASB/FASB framework is likely to govern, or at least influence, the setting of international and US standards for some time to come, stewardship as a consequential factor seems to have receded into the background.

Conservatism, when it has been included at all as a criterion in the frameworks – increasingly labeled as prudence because of the unsavory reputation of ‘conservatism’ – has been uniformly defined as a cautionary reaction to uncertainty. None of the frameworks have embraced a deliberate understatement of assets and revenues, or a deliberate overstatement of liabilities and expenses.

A sobering reflection on the possible impotence of standard setters’ conceptual frameworks has been raised by Charles Horngren (1981, pp. 90, 92), a former standard setter himself. He argued that each member of a standard-setting board has his own ‘individual conceptual framework’ based on many years of professional experience. Regardless of the board’s agreed-upon framework, the members’ individual frameworks may be, above all, the ones that shape their views on particular standards and interpretations. These individual frameworks may carry greater weight than an abstract statement of objectives when the board begins deliberating the framework’s recognition and measurement norms. It may have an impact even on the selection of the objectives.

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