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## Making up users

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### Abstract

Within recent years, financial statement users have been accorded great significance by accounting standard-setters. In the United States, the conceptual framework maintains that a primary purpose of financial statements is to provide information useful to investors and creditors in making their economic decisions. Contemporary accounting textbooks unproblematically posit this purpose for accounting. Yet, this emphasis is quite recent and occurred despite limited knowledge about the information needs and decision processes of actual users of financial statements. This paper unpacks the taken-for-grantedness of the primacy of financial statement users in standard-setting and considers their use as a category to justify and denigrate particular accounting disclosures and practices. It traces how particular ideas about financial statement users and their connection to accounting standard setting have been constructed in various documents and reports including the conceptual framework and accounting standards.

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The conceptual framework of the Financial Accounting Standards Board (FASB) specifies a very particular and narrow purpose for financial reports: the provision of information useful in making economic decisions. Consider the following definitions or descriptions of accounting that are found within two widely used intermediate accounting textbooks:

... the objectives of financial reporting are to provide (1) information that is useful in investment and credit decisions, (2) information that is useful

in assessing cash flow prospects, and (3) information about enterprise resources, claims to those resources, and changes in them (Kieso, Weygandt, & Warfield, 2004).

The primary function of financial accounting is to provide relevant financial information to users external to the business enterprise. The focus of financial accounting is on the information needs of investors and creditors. These users make critical resource allocation decisions that affect the nation's economy (Spiceland, Sepe, & Tomassini, 2001).

Most contemporary accounting textbooks contain similar statements that declare the primacy of user needs and user decisions (often referred to as

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decision usefulness) as a guide in the construction of external financial statements. Indeed, these financial statements are said to exist primarily to serve user information needs. To individuals trained in or teaching accounting during the last two decades, statements such as these about the purposes for accounting are perhaps unremarkable. However, connections between financial statement users, decision usefulness and standard-setting were forged relatively recently and were initially controversial.<sup>1</sup> More than 60% of the respondents to the FASB's (1974) discussion memorandum on the objectives of financial reporting opposed adopting the provision of information for economic decision making as an objective for accounting (Armstrong, 1977; Schuetze, 1983; Van Riper, 1994). In part the opposition arose from an emphasis in accounting practice that defined an acceptable accounting in terms of "what accountants do" with relatively little effort expended on examining the logic or "usefulness" of accounting practices (Spiller, 1964, p. 851). However, even prominent academics such as Moonitz explicitly rejected usefulness as a purpose for accounting reports. In Accounting Research Study No. 1, he argued that an emphasis upon the "pragmatic aspect of accounting" required answering to whom it was to be useful and for what purpose:

And herein lies the danger. We could easily be trapped into defining accounting and formulating its postulates, principles, and rules in terms of some special interest... 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 (Moonitz, 1961, p. 4).

Despite initial resistance, the significance of users as a guide in shaping financial accounting standards has achieved a taken-for-grantedness in the intervening years. Particular accounting

requirements are frequently justified by references to user needs or wants or interests. However, these assertions are rarely connected to specific evidence. As Agrawal (1987, p. 175) has noted usefulness tends to be asserted rather than based on "systematic study of user decision models and needs." Indeed, Miller (1990, p. 31) has advocated the adoption of a different objective for financial statements as it would provide "relief for FASB from dependence on user support and from embarrassment when users do not participate in its process."

In this paper, I examine how financial statements users were connected to the standard-setting process as central concerns despite relatively little participation by physical readers of financial statements. Specifically, I explore how various committees, academics, and others have constructed the category of financial statements users. While this category, like many other categories, may be filled by flesh and blood individuals (Hacking, 1986), it gathers much of its utility through its abstraction from these same individuals. When the term financial statement user is invoked in various accounting publications including accounting standards, the user appears as a resource to justify or dismiss a particular accounting disclosure or practice. It is the category that is referenced rather than individual persons.

In the United States, the construction of this category has been an ongoing and continuing effort, one that has involved standard-setters, committees, academics, and many others. These individuals and entities have published various documents through which we can observe the production of ideas about what users of accounting information should be like and how they should connect to accounting information. In particular, several conceptual framework documents—A Statement of Basic Accounting Theory (ASO-BAT), the Report of the Study Group on Objectives of Financial Statements and Statement of Financial Accounting Concepts No. 1 (SFAC 1) were significant in developing and promoting these ideas and connections. The accounting standards of the FASB continue this work by depicting the user as being of a particular kind and employing this depiction as a justification for its various accounting choices.

<sup>1</sup> This change to an informational approach was called a financial reporting revolution by Beaver (1981). Also see Puxty and Laughlin (1983) and Williams (1987) for extended critiques of the decision usefulness concept.

The exploration undertaken in this paper falls under the umbrella of social construction studies. While some (e.g., [Hacking, 1999](#)) have suggested these studies are a philosophical or methodological flavor of the decade, they are typically aimed at reminding or showing us that the reality we experience today might easily have been different. These studies question the “givens,” the unstated and often unrecognized assumptions that underlie ideas, situations or practices. They highlight how such “givens” are more aptly named “takens” (to use Dewey’s term, see [West, 1989, p. 90](#)). By altering our perception so that we can see how an idea we thought was given (or natural) is instead taken or chosen from a myriad of possibilities, questions that might otherwise remain unthought can begin to be asked. Specific objects and ideas can no longer form an unexamined background against which other ideas and activities may occur. It is this opening of possibilities for questions that provides social construction work with its liberating potentialities.

We are reminded that the ideas, classifications, concepts and goals that we use in science, daily life, commerce and accounting are ours rather than nature’s. They are shaped by us not found ([Rorty, 1982, p. 166](#)) and are neither finalities nor fixities. Ideas and theories are to be regarded as hypotheses, the usefulness of which are to be determined by use: “There is no infallible source of ideas and ideas themselves are tools to be rejected, accepted or remade in the light of the consequences of their use” (Dewey cited in [Rockefeller, 1991, p. 405](#)). Carefully attending to these ideas and goals is necessary as otherwise they may unduly constrain what it is possible for us to think as well as limit the activities, institutions and products we believe are possible and feasible ([Douglas, 1986](#)). Specific objects that might otherwise remain unquestioned are instead seen as products of historical events, social processes and ideologies ([Hacking, 1999](#)).

The remainder of the paper is organized as follows. In the next section, I outline the absence of connections between financial statement users and the selection of accounting practices and disclosures in the earlier accounting literature. This section is followed by an exploration of the envi-

ronment in which connections between users and financial statements began to gain increasing purchase. After this, I describe the issuance of the various conceptual framework documents and their emphasis upon financial statement users and the purposes they ascribed to accounting. The irony that little was known about the relationship(s) between users and financial statements is then explored and, in particular, how this ignorance was mitigated by models and normative assertions that could replace interactions with flesh and blood users. After considering how the various conceptual framework documents have contributed to the construction of users, I examine the contribution of the FASB’s on-going standard-setting process to these efforts. I end the paper with a few concluding comments.

### **Accounting is what accountants do**

Lists of possible readers of financial statements are found in many early accounting monographs and textbooks. [Sanders, Hatfield, and Moore \(1938, p. 4\)](#) stated that a function of accounting was to prepare statements to satisfy “the need for information of all the parties in interest, especially (a) the management of the business, (b) outside groups such as investors and creditors and (c) government in such matters as taxation and regulation.” [Paton and Littleton \(1940, pp. 2–3\)](#) similarly described corporation reports as the “basic data for the investor, the employee, the consumer, and the government.” [Paton \(1926, 1938\)](#) detailed the various types of economic actors that were interested in financial statements including employees, creditors, customers, prospective investors, trade associations and the state. [Finney and Miller \(1951, p. 134\)](#) stated that “Financial statements are receiving increasing attention from management, credit grantors, stockholders, governmental agencies, and the general public. They provide a basis for the formulation of many business decisions.” [Meigs and Johnson \(1967, p. 3\)](#) described accounting reports in comparable terms indicating that “this information is needed by the business manager to help him [sic] plan and control the activities of his organization. It is also needed by

outsiders—owners, creditors, investors and the public...’’<sup>2</sup>

Each of these monographs and textbooks specifically mentions particular readers of financial statements. However, the readers referenced in these texts were not yet constructed as a particular kind of decision-maker that could (or should) be connected to a process of selecting specific accounting practices or disclosures. For these authors, the readers of financial statements did not serve as a justification in selecting particular accountings. Spacek (1964, cited in Zeff, 1972, p. 188) maintained that

If one reviews the statements on accounting principles issued by the profession, one can hardly find an instance where the accounting is being recommended for the purpose of providing adequate investor information...

Rather than being defined in terms of their usefulness to economic decision-makers, “appropriate” accounting practices were those that adhered to desirable accounting conventions such as conservatism, consistency, historical cost and matching. These accounting texts were primarily concerned with the measurement of income, the recording of various economic transactions and the proper preparation of specific accounting reports.

The objectives and/or definitions of accounting found in these texts were not specified in relation to any “why” or “who” (i.e., purpose) for accounting but instead were defined by reference to the “what” of accounting (i.e., its practices). For example, Eggleston (1930) maintained that the purpose of accounting was to record assets, liabilities and proprietorship; to show due froms and due tos; and to reveal profit or loss. Finney (1933, p. 1) described accounting as a “body of legal, industrial, commercial and financial principles which must be taken into consideration in determining how and to what extent the transactions of a business affect the value of its assets and the amount of its liabilities, profits and capital.” Both

authors discussed accounting in terms of the activities performed by accountants as did Finney and Miller (1951, p. 117) who specified the basic principles of accounting as those that helped to produce accounting results that were uniform and consistent. Indeed, the “official” definition of accounting provided by the American Institute of Accountants’ Committee on Terminology also defined accounting solely in terms of its performance: “Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof” (cited in Grady, 1965, p. 2).

Each of these definitions exhibits circular reasoning in that accounting is defined in terms of what accountants do. Accounting methods are justified based upon accounting activities including recording, classifying, and interpreting or upon its conventions such as matching or conservatism rather than in terms of how the method may or may not produce information useful to particular types of users. Although accounting reports were described as communicating the results of corporate activities to interested parties, the justifications for accounting practices were not connected to specific types of financial statement readers or their decisions. Staubus (1999, p. iii) states that “At mid-century, a researcher could have found no evidence of its existence [a decision usefulness objective for accounting].” For the authors of these texts and monographs, improvements in accounting reports and practices would be achieved by refining the answers to issues that accountants had addressed for decades<sup>3</sup> rather than through any explicit focus upon satisfying “user needs.” They presumed that if income was “properly” measured and financial position was “properly” reported, then accounting reports would, of course, be useful. The usefulness of accounting information and reports was thought to emerge as a byproduct of their “correctness”,

<sup>2</sup> Also see Holmes, Maynard, Edwards, and Meier (1958) and Niswonger and Fess (1965).

<sup>3</sup> According to *The Accountants’ Handbook* (1956, pp. 1–1), these questions were: “(1) What has been the income result of the company’s activities for a specific period of time? (2) What is the company’s financial position at a specific time?”

a correctness that was unconnected to any specific ends to which accounting information might be used. Useful practices were those that resulted in “more practicable, more reliable” measurements (Broad, 1957, p. 32) or that were useful in reflecting profit (e.g., LIFO, see Broad, 1957). As such, usefulness emerged from specific accounting practices rather than served as a basis for their selection.<sup>4</sup>

### An environment of transition

Connections between the financial statement user depicted as an economic decision maker and the standard-setting process were made amid a confluence of various events, ideas, and people. In this section, I outline how interactions between a demand for accounting uniformity, the perceived failure of existing accounting institutions to achieve such uniformity and the science of decision contributed to the construction of an environment in which these connections became feasible.

#### *Demand for uniformity*

During the 1950s, patterns of equity investment began changing and investor focus slowly shifted from dividend yields towards capital gains (Baskin & Miranti, 1997, p. 233). Small investors who had fled the equity markets during the Great Depression began to return to these markets in increasing numbers. Institutional investors were also increasingly significant participants in equity markets. During this same decade, hundreds of large companies adopted defined benefit pension plans.<sup>5</sup> These companies typically made a periodic contribution into a pension trust. Initially, the pension trusts primarily invested funds in bonds; however, by the end of the 1950s, approximately 40–45% of

trust investments consisted of equity securities (Lambourne, 1961; Reiersen, 1960). As patterns of equity investment changed, the numbers of financial analysts grew with analysts founding a professional organization, the Financial Analysts Federation, in 1947 and commencing publication of a professional journal, *Financial Analysts Journal*, in 1945.

Each of these changes contributed to increased scrutiny of company financial statements. Practicing accountants predicted that these changes would increase the significance of audited financial statements (Corbin, 1958) as well as the importance of ensuring the comparability of financial statements for companies operating in the same industry (West, 1959).<sup>6</sup> Yet, as one business executive pointedly stated, this comparability was absent:

Comparisons between two companies in the same industry, and to a greater extent between two companies in different industries and between entire industries, are so arbitrary as to be not only worthless but dangerous (Knauth, 1957, p. 32).

In part, the lack of comparability arose from the failure of accountants to specify a single accounting method for such basic areas as inventories and depreciation. The changing business environment also contributed additional areas in which multiple accounting methods were proliferating including mergers and consolidations, goodwill, research and development expenditures, leases, sales-leasebacks, and the treatment of exploration costs (Blough, 1959; Eaton, 1957; Uniformity in Accounting, 1964).

Criticisms about accounting flexibility frequently appeared in business press outlets including *Business Week*, *The Wall Street Journal*, *The New York Times*, *Barron's*, *Dun's Review*, *Fortune* and *Forbes* (Zeff, 1972). Criticisms also appeared in the *Journal of Accountancy* as practitioners argued the respective merits of uniformity and flexibility in the selection of accounting methods (see e.g., Catlett, 1964; Gaa, 1961; Jennings, 1958a, 1958b; Kemp, 1963; Spacek, 1961, 1964). Further highlighting this issue, US Congress held

<sup>4</sup> Such presumptions were criticized even at that time. Dein (1958, p. 393) commented that it was “an easy and convenient assumption” that “conventionally prepared accounting reports” were “adequate for any and all purposes which called for accounting data.”

<sup>5</sup> General Motors has been credited with adopting the first such plan in the United States.

<sup>6</sup> Also see Catlett (1960a, 1960b) and Corbin (1958).



a hearing in February 1964 to explore the lack of uniformity in accounting. During the hearing, SEC Chairman, William Carey was bluntly asked whether the SEC accepted "... financial statements from various companies following alternative accounting practices with materially different results for similar transactions..." (*Uniformity in Accounting, 1964, p. 56*). Upon answering affirmatively, Carey was told to submit a statement detailing alternative practices in use that might yield materially different results.

The issue of uniformity continued to concern another SEC Chairman, Manuel Cohen. In speeches and articles, Cohen frequently stressed the importance of reducing accounting alternatives. Because financial statements formed the "keystone" of investor confidence, he maintained that the integrity and completeness of financial reporting was essential (*Cohen, 1966a*). As he criticized existing flexible practices, Cohen often reminded accountants that the statutory authority for accounting choice rested with the SEC. The SEC had recently exercised its authority to require the use of a specific method in accounting for the deferred tax consequences of installment sales. *Cohen (1966b, p. 59)* indicated that this authority was always available: "I do not believe it will be necessary for us to use that device with great frequency—although the option is always open to us." Thus, the failure of accountants to increase uniformity and decrease flexibility renewed the perceived threat of a government takeover of the standard-setting process.

#### *Difficulties in standard-setting*

In 1959, the AICPA replaced the Committee on Accounting Procedure (CAP) with a new standard-setting group, the Accounting Principles Board (APB). CAP had often been criticized for its slowness in resolving accounting issues and eliminating accounting alternatives. In establishing the APB, the AICPA initially attempted to connect practice, research (science) and standard-setting by indicating its intention to embark upon a research program that would regard the "... development of accounting principles... as in the nature of pure research" (*Jennings, 1958a, p. 32*).

With the assistance of various researchers from academia and practice, the APB would develop postulates to "provide a meaningful foundation for the formulation of principles and the development of rules..." (*Powell, 1960, p. 35*). This research was to provide a solid conceptual basis to use in improving and narrowing accepted accounting principles (*Philips, 1963a, 1963b*) on a consistent and logical basis (*Queenan, 1962*).

Despite its "scientific" charge, the APB almost immediately began to follow the more familiar ad hoc methods of the CAP. Although two research studies (Accounting Research Studies Nos. 1 and 3) had been commissioned to provide a conceptual or "scientific" basis for the APB's standard-setting efforts, the Board refused to approve the studies because they were "too radically different from present GAAP for acceptance at this time" (*News Report, 1962, p. 10*).<sup>7</sup> Throughout the 1960s, the APB was criticized for its slowness in reaching decisions and its inability to address many of the critical issues confronting accounting practitioners.

#### *The science of decision*

Following World War II, the science of decision increasingly permeated the business world. The war had engaged mathematicians, economists, statisticians and industrial engineers with logistical, planning and managerial issues (*Gore, 1959*). *Bedford, Griffin, and Williams (1962, p. 35)* summarized the impact of this engagement:

The last decade has given rise to many new developments in the application of mathematical techniques to business decision-making. The impetus for this significant advance in the rigorous analysis of problem situations was provided by World War II. The success in applying mathematical techniques to problems of war motivated attempts to extend the methodology into the business world.

Business schools both contributed to and were impacted by this emphasis upon science (*Whitley,*

<sup>7</sup> The APB not only rejected these studies, they also commissioned Paul Grady to prepare an inventory of existing GAAP.

1986). Curricula were dramatically revised to lessen the previous emphasis upon “learning institutional facts” and to focus instead upon learning “enough about mathematics, statistics and the computer to be able to understand and use decision models from the management sciences and operations research” (Cyert & Dill, 1964, p. 4).

The content of accounting education was subjected to similar scrutiny when the AICPA commissioned a study to define a common body of knowledge for beginning CPAs. Along with other recommendations, the study’s authors called for extensive knowledge of economics, especially micro-economics and for “substantially more knowledge of mathematics, statistics and probability...” (Roy & MacNeill, 1966, p. 48). The recommendation was justified by reference to the increasing application of these domains in organizational decision making and their consequent impact on the practice of CPAs.

Decision models, statistics and probability also began to enter auditing and accounting practice more directly. In 1956, the AICPA established a committee, chaired by Robert Trueblood, to explore the applicability of statistical sampling methods to audit testing.<sup>8</sup> Articles explaining the use of statistical sampling occasionally appeared in the *Journal of Accountancy* (e.g., Obrock, 1958; Stringer, 1961; Trueblood, 1957; Trueblood & Cyert, 1954). In the emerging managerial accounting area, techniques such as discounted cash flows began to receive significant attention in the 1950s as a means for improving capital allocation and other management decisions (AAA, 1962; Christensen, 1955; Miller, 1991) and contributed to the formation of a economic-financial calculus approach to situations defined as decision-making (Miller, 1991). Leading practitioners such as Trueblood (1958, p. 37) maintained that operations research would allow accounting to move away from a role of historical record-keeping to become an “...important part of the decision making process in business operations.”<sup>9</sup>

Corbin (1962, p. 626) referred to the integration of the new decision-making material into managerial accounting as a “revolution” and lamented its absence in financial accounting, particularly the absence of the economist’s forward looking approach. Economics and financial accounting had previously intersected as various accounting theorists drew upon economic theories of income and value in their writing. Now some academic accountants began to connect financial accounting to economic decision-making. Specific accounting practices were criticized for their purported failures to provide information useful for decision making (e.g., Bierman, 1960; Corbin, 1961; Solomons, 1961). These authors argued that accounting could no longer be considered as an end in itself but must instead be assessed by reference to its usefulness in making decisions (Bevis, 1961; Birnberg, 1964; Marple, 1963; Sprouse, 1963). Accounting should not provide “...a chronicle of financial transactions; it [should] provide relevant economic information” (Sprouse, 1963, p. 689) and, especially, information useful in making investment decisions (Dyckman, 1964; Sprouse, 1963).

The study of decisions in various far-ranging contexts and the development of decision theory also gained considerable momentum during the 1950s in various social science fields (Wilson & Alexis, 1962). Micro-economics, statistics, game theory and other mathematical techniques were combined in this development. Seen from these perspectives, decision making was typically framed as a rational choice problem and conceptualized as an intentional, consequential, optimizing activity (March, 1988). This view of decision making also envisioned the process as sequential: after recognizing the existence of a problem, the decision maker specified the goals that would define an optimal solution, considered all alternatives and finally selected the alternative that maximized the likelihood of achieving the desired goal (Feldman, 1989). Goals and objectives were considered critical to “good” decision making processes. As March (1988, p. 286) notes: “Conventional notions about intelligent choice often begin with the presumption that good decisions require clear goals, and that improving the clarity of goals

<sup>8</sup> See Power (1992) for a pre-history of audit sampling.

<sup>9</sup> Also see Churchman and Ackoff (1955).

unambiguously improves the quality of decision-making.”<sup>10</sup>

This emphasis upon the clarity of goals or objectives entered discussions about the means of selecting accounting methods or principles and reducing accounting diversity. As discussed previously, considerable pressure was exerted on accountants by the SEC, some practitioners, the press and others to increase the uniformity of accounting practices—to choose one (or more) accounting practices as better than others. The concept of general acceptance as a justification for the use of accounting methods had often resulted in diversity and the use of practices deemed unsound by some (Catlett, 1969; Spacek, 1968). The process of choosing or deciding upon a best or better practice had proved to be slow and contentious for both the CAP and the APB. A more “scientific” approach to standard-setting had seemed to offer the possibility of allowing the APB to better defend its accounting choices and resolve accounting problems (e.g., Catlett, 1960b; Queenan, 1962). Instead, the APB also approached accounting problems on an ad hoc basis.

Several practitioners and academics now argued that the absence of clear objectives for and purposes of accounting was the major obstacle to resolving accounting issues effectively and quickly.<sup>11</sup> From this perspective, the research studies earlier rejected by the APB as too radical had a further flaw as they had also failed to establish objectives for accounting (Comments, 1963; Metcalf, 1964; Rappaport, 1964).<sup>12</sup> Spacek (1964, pp. 275–276) charged that the AICPA research program had

...lost sight of the problem. We started acting as if the fundamental objective of accounting was already known and accepted, without having first

determined what that objective was. Had it been known, it would have guided us in a course of action that would have been more effective.

In 1965, the AICPA pressured the APB to “set forth its views as to the purposes and limitations of published financial statements” (AICPA Special Committee on the Opinions of the APB quoted in Pacter, 1983, pp. 77–78). Catlett (1969, p. 62) argued that the APB could attain its goal of establishing sound principles “...only if there is a clear and concise statement of the objectives and concepts which should be used to build a solid set of principles.”<sup>13</sup> Discussing the APB experiment, Oliphant (1971, p. 94) similarly maintained that rather than criticizing the APB, “...criticism should have been focused more often and more clearly on our failure to develop and define the true objectives of financial statements.” Defliese (1977, p. 62), former chairman of the APB, later reflected: “...it was believed that if we could reach agreement on the objectives, everything else would fall into place.” In this process of establishing objectives for accounting, the financial statement user began to be constructed as a particular kind and connected closely to the standard-setting process.

### Connecting users to accounting principles<sup>14</sup>

The AAA had issued a “Tentative Statement of Accounting Principles,” in 1936 and subsequently revised this statement in 1941, 1948 and 1957. These documents primarily described existing accounting conventions for assets, costs, revenues, and liabilities. In 1964, amid the various concerns about accounting uniformity, the AAA Executive Committee authorized the appointment of another committee “...to consider... the role, nature and limitations of accounting, ...the appropriate conceptual framework for a coordinated statement of accounting theory...” (AAA, 1966, p. v). This committee produced *A Statement of Basic*

<sup>10</sup> Some decision models such as Simon’s satisficing model relax some of the requirements of the rational choice model but still maintain the significance of pre-specified goals and preferences (Feldman, 1989).

<sup>11</sup> See Gerboth (1973) for a critique of this position.

<sup>12</sup> As noted earlier, Moonitz explicitly rejected usefulness as a basic purpose for accounting.

<sup>13</sup> Also see Skinner (1968) and Spacek (1968).

<sup>14</sup> See the appendix for a chronological listing of the various documents and events discussed in the following two sections.



*Accounting Theory* (ASOBAT) that was described as a “marked departure from previous publications of the AAA, as well as from various AICPA statements...” (Fertig, 1967, p. 663).<sup>15</sup>

ASOBAT had no authoritative weight. It was issued as a committee document rather than as an official pronouncement of the AAA and the APB rather than the AAA was responsible for writing accounting principles or standards. The significance of ASOBAT lay not in its immediate impact upon the process of altering accounting standards but in providing an alternative approach to use in criticizing existing practices. Rather than continuing the piecemeal approach of the CAP and APB in resolving individual accounting problems, ASOBAT represented an effort to develop a framework for evaluating existing practices and justifying the selection of one practice as “better.” It articulated a theory of accounting that began by asserting a basic purpose or objective for accounting: accounting was to be useful for judgments and decisions. As such, ASOBAT was the first conceptual framework-like document to emphasize the significance of users and their decisions to accounting practices (Staubus, 1999; Zeff, 1999).<sup>16</sup> It defined accounting in terms of its usefulness and described it as “the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information” (AAA, 1966, 1, *emphasis added*). ASOBAT was an effort “...to implement the full significance of the definition by interpreting it literally” (Fertig, 1967, p. 664). In other words, the authors of this statement

attempted to develop a theory of accounting that was not connected solely to the measurement of income and assets.

The definition of accounting forwarded in ASOBAT retained some of the earlier emphasis upon the activities of accounting that Paton and Littleton (1940), Sanders et al. (1938) and the American Institute of Accountants had stressed in their definitions. At the same time, the ASOBAT definition significantly amended earlier descriptions with its inclusion of an explicit statement of purpose for external accounting. While maintaining that accounting must be useful, ASOBAT did not declare any particular user group such as investors to be of primary significance. Instead, it indicated that useful information was required for both internal and external purposes and classified users of accounting information into two broad groups: external users which include “present and potential investors, creditors, employees, stock exchanges, governmental units, [and] customers...” (p. 20) and internal management (p. 37).

Dissatisfaction with the APB’s piecemeal approach to resolving accounting issues and the contents of its opinions continued. Several Big 8 accounting firms were especially critical of the compromises reached by the APB in its opinions outlining accounting guidance for business combinations and goodwill (Zeff, 1972). These firms (particularly, Arthur Andersen & Co and Touche Ross) questioned the ability of the Board to deal effectively with difficult accounting problems. In 1971, the AICPA formed two study groups—one to study the process to follow in establishing accounting standards<sup>17</sup> and the other to develop the objectives of financial statements to facilitate improving accounting and financial reporting.<sup>18</sup>

<sup>15</sup> Fertig was a member of the AAA committee that produced ASOBAT.

<sup>16</sup> Previously, the 1957 Revision of Accounting and Reporting Standards for Corporate Financial Statements (AAA, 1957) had defined the primary function of accounting as accumulating and communicating information essential to understanding enterprise activities. Only in regards to disclosure did the committee indicate the importance of financial statements users: the “use by investors of published financial statements in making investment and credit decisions and in exercising control over management should be considered of primary importance” (AAA, 1957, p. 542 *emphasis added*). In contrast, the 1948 Revision simply indicated in the concluding comments that financial statements “must supply dependable information for the formulation of judgments” (AAA, 1948, p. 344).

<sup>17</sup> Earlier that year, another AAA committee had recommended establishing such a group to explore alternative methods of selecting accounting principles (AAA, 1971).

<sup>18</sup> The APB finally issued its statement of basic concepts and principles for accounting in 1970. However, the statement received relatively little attention. While the new study group on objectives for financial reporting was directed to regard this statement as “a logical starting point” for its work, it was also not to be limited to refining the APB statement (Study Group, 1973, p. 67).

The chair of the objectives study group, Robert Trueblood, had strongly advocated using the concepts and methods of other disciplines such as statistical sampling and operations research to enrich accounting and auditing practice. He had also supported the development of accounting objectives as a means to improve accounting practice (e.g., Trueblood, 1970, p. 62) and favored exploring the possible contribution of other disciplines in this development. Writing for a *Journal of Accounting Research* Conference, Trueblood argued (1966, p. 189):

I believe there has been a tendency for accountants in discussing basic concepts to limit their discussions to other accountants... It seems unlikely that basic concepts of accounting can ever be developed without taking into consideration developments in other fields such as the law, economics, mathematics and the behavioral sciences.

George Sorter, a former member of the ASOBAT committee, was appointed research director for the Study Group. Sorter had also advocated a decision usefulness position in some of his earlier work arguing that for “accounting to be of optimal utility,” it must provide information to predict cash flows and to assess their risks (Ronen & Sorter, 1972, p. 259). In the course of establishing its accounting objectives, the Study Group staff conducted a “theoretical investigation of the literature and the economic decision making process” (Sorter, 1973, p. 33).

Based on this and other work, the Study Group asserted in its report that the “basic objective of financial statements is to provide information useful for making economic decisions” (Study Group, 1973, p. 13). The recording, classifying and interpreting activities included in the AIA and ASOBAT definitions had disappeared. Now the “boundaries of accounting [were to] be influenced *primarily by users*, their goals and their needs for information” (p. 16, emphasis added). The Study Group also reduced the types of users deemed of interest by maintaining that useful financial statements were “to serve primarily those users who have limited authority, ability or resources to obtain information...” (p. 17).

Managers and various regulatory authorities were thereby pushed into the background as investors and creditors were given center stage (p. 20).

Based on recommendations made by the other AICPA-sponsored study group, the FASB was formed in 1973 to replace the APB and included a conceptual framework project on its agenda. In 1974, the FASB issued a discussion memorandum that drew

almost exclusively upon the Objectives Study [Study Group Report]. Views [were] sought on the objectives of financial statements and on the qualitative characteristics of reporting set forth in the Objectives study (FASB, 1974, p. 2).

Several years later, the FASB issued its final statement on the objectives of financial reporting in which it maintained that the objectives of financial reporting were to “provide information that is useful in making business and economic decisions—for making reasoned choices among alternative uses of scarce resources in the conduct of business and economic activities” (FASB, 1978, ¶9). The statement detailed a veritable laundry list of possible users of these reports including owners, lenders, suppliers, potential investors and creditors, employees, management, customers, financial analysts, regulators, labor unions and the generic “public” (¶24). While this lengthy list suggests greater inclusiveness than that from the Study Group report, the list was almost immediately shortened to emphasize the information needs of investors and creditors.

The Study Group report and SFAC 1 were described as enacting a shift from “a producer-oriented view (that of an accountant preoccupied with procedures) to a user-oriented emphasis on decisions...” (Goetz & Birnberg, 1976, p. 18). In doing so, these documents had heeded the advice of various accounting critics that accounting could no longer be practiced for its own sake. (See e.g., Bevis, 1961; Cannon, 1962; Spacek, 1958; Spiller, 1964; Sprouse, 1963). Indeed, the Study Group Report (1973, p. 13) clearly stated: “The objective [of financial statements] is not directed toward recording or reporting for their own sake.” Criticizing earlier accounting writers

like Paton, Littleton and Vatter, Sorter (1978/1979, p. 2) argued for the importance of these objectives:

What issues did these [authors] deal with? The major, burning questions seem to be, would we use cost or value, is goodwill an asset, and should the accounting unit be thought of as a proprietorship or as an entity? But how can such questions be answered absent the specification of what the purpose of accounting is and how it is to be used?

To help reduce diversity in accounting practices, hopes were now being pinned on a conceptual framework. For many, decision usefulness with its focus on the users of financial statements *was* the conceptual framework (Sterling quoted in Miller, 1990 & Van Riper, 1994).

With the issuance of each of these documents, accounting became increasingly less focused upon accounting activities and upon defining a “good” accounting in terms of its adherence to matching or a particular income measurement theory. Accounting practices and their selection became explicitly connected to financial statement users and economic decisions. However, while each report listed particular groups that might find accounting useful, they also shared a common irony in that little was known about the very users towards which standard-setting efforts were now to be directed.

### Getting to know users?

ASOBAT, the Study Group Report and SFAC 1 each stressed the significance of users to accounting and the selection of accounting practices and disclosures. However, as described in this section, the user accorded this role was an idea or a type rather than a physical being. Physical beings (which I will now refer to as readers) remained enigmas in these reports even as their importance to accounting was emphasized and advocated. The ways these readers used accounting information in reaching their decisions were essentially a black box, an unknown, in the documents that

accorded them a central place in defining a useful or good accounting. Although ASOBAT outlined the decisions of various external users—to invest or not, to extend credit or not, to remain employed by the company or not, to alter existing government policy, etc., the study (1966, p. 19) admitted that: “Ideally more should be known about what does and should affect their decisions.” The Study Group Report (1973, p. 13) was even blunter in admitting its lack of knowledge: “...users’ needs for information... are not known with any degree of certainty. No study has been able to identify precisely the specific role financial statements play in the economic decision-making process.”

ASOBAT (1966, p. 19) indicated the importance of research to reduce this ignorance: “As more is learned about external users, ...and as their decision models are refined and become better known, accounting theory and practice will change.”<sup>19</sup> However, the necessary research would require a time consuming and lengthy process and it was argued that actions to enhance accounting uniformity and to ease criticisms of accounting were needed now. In order for users and their information needs to serve as an accounting objective, these reports now began to connect users to financial statements in specific ways and to construct them as being of a particular kind. This work involved a two-pronged effort. First, the reports effaced differences between the various possible readers of financial statements. Second, the reports questioned the competence and/or reliability of these readers to serve as a resource for standard-setting and thereby justified the substitution of other ideas or models to guide this process.

### *Effacing differences*

With the exception of the Study Group Report, each document detailed a long list of

<sup>19</sup> APB Statement 4 (1970, ¶48) also commented that “Improving financial accounting requires research on the nature of user needs, on the decision processes of users, and on the information that most effectively serves user needs.”

possible financial statement readers. However, such diverse readers would likely desire different and perhaps conflicting information. These conflicts would inhibit rather than assist the standard-setting process. As Burke (1976, p. 10) commented:

...the trouble is that it is not always clear which type of user and which level of user we are trying to serve for surely, different types of users have different needs.

...It would be impossible to provide information useful to all. One user's needs may in fact conflict with those of another...

Rather than attempting to reconcile these possibly conflicting differences, each report chose a similar strategy—to stress the presumed similarities of readers of financial statements while suppressing their possible differences.

In making this move, ASOBAT (AAA, 1966, p. 19) stated that knowing the detailed needs of diverse users was not necessary as “certain classes of information are relevant to many decisions.” The Study Group Report (1973, p. 17) made a similar assertion in noting that “Though users who rely on financial statements are of different types, they have certain similar information needs.” This report (p. 18) later restated this point: “Classifying users as investors, creditors and managers is helpful in discussing their principal activities. While users may differ, their economic decisions are similar.” The FASB (1978, ¶30) made a similar assumption in SFAC 1: “...information provided to meet investors' and creditors' needs is likely to be generally useful to members of other groups who are interested in essentially the same financial aspects of business enterprises as investors and creditors.” Even as these reports stressed the significance of various readers to the construction of financial statements, they simultaneously claimed that knowledge about the multiple and possibly conflicting decision needs of these various readers was unnecessary. In effacing the differences between these possible readers, the standard-setting process was distanced from the unruly and conflicting readers of financial statements and became focused upon users who were *like* investors and

creditors and would thereby require similar information.

### *Questioning competence*

Simultaneously, the reports questioned the competence and/or consistency of various financial statement readers. ASOBAT asserted that readers were “often not competent to determine what information is most useful to them or at least not articulate in stating their needs” (AAA, 1966, p. 3). In the background papers to the Study Group Report, Ronen and Sorter (1974) questioned the utility of developing descriptive models of the relationships between readers and accounting statements as such models would only change over time. For them, inconsistent readers would prove a hindrance to the standard-setting process. This underlying distrust of readers' competence was perhaps best expressed in another AAA document issued by the Committee on External Reporting. In reporting on the merits of external accounting practices “in light of the standards for accounting information suggested in the AAA Statement of Basic Accounting Theory”, the committee (AAA, 1969, p. 79) bluntly stated that “...decision makers may continue to utilize what appears to be irrelevant or misleading information. Such information should be brought into the models only when and if further research finds it to be, in fact, relevant in the decision process to meet the real or apparent goals of the decision makers.” In its concepts statement, the FASB insisted that only the deserving reader should be considered in the standard-setting process—the reader who had made a “proper” effort to understand the contents of financial statements. The Board (1978, ¶36) indicated that “financial information is a tool and, like most tools, cannot be of much direct help to those who are unable or unwilling to use it or misuse it...[it] should provide information that can be used by all...who are willing to learn to use it properly.”

These authors distrusted the abilities of the very reader they had designated as central to accounting and standard-setting. If the readers of financial

statements were ignorant, unreliable, inconsistent and/or uneducated, then how could the standard-setter employ user needs as a guide to resolving accounting issues? ASOBAT adopted the tactic of defining relevant accounting in terms of the information already produced by accountants. Although the report acknowledged the significance of the amounts and timing of future cash receipts to many theorists, it chose to place emphasis upon existing accounting information given the difficulty of knowing these cash receipts “exactly.” ASOBAT (1966, p. 23) stated that “almost all external users...are involved in efforts to predict the earnings of the firm...” and that for “...some users the effort to predict future financial position and debt-paying power may be of greater importance...” (p. 24). Based on these observations, the study urged the supply of relevant information about the measurement of past earnings, financial position and funds flow. ASOBAT assumed the usefulness of this information, giving no consideration to the possibility that perhaps readers tried to predict future earnings or financial position because that was the information that accountants had provided them in the past. The user envisioned by ASOBAT was one who readily agreed that existing accounting statements with appropriate modifications would be useful in their decision processes.

The Study Group Report also worked to distance readers from the standard-setting process but elected to employ a somewhat different tactic. While ASOBAT had assumed the usefulness of various types of accounting statements to the user, the Study Group report replaced readers with assumptions that were “supported by research available to the Study Group and are believed to be consistent with economic and behavioral theory” (1973, p. 13). Even as the Study Group indicated its desire to provide information for those who could not demand it on their own (p. 17), its members chose to emphasize the information that various models theorized was important rather than the information that readers of the financial statements might desire. Ronen and Sorter (1974) justified this choice in the background materials to the study. They argued that normative models were preferable given their ready

availability as contrasted to the difficulty of gathering evidence to develop descriptive models. Ronen and Sorter (1974, p. 81) also maintained that primary emphasis should be given to normative models as “the normative model is the procedure that a rational man follows in making a particular decision in a specified set of circumstances.”<sup>20</sup>

These strategies distance the potentially messy readers of financial statement from the standard setting process. Rather than focusing on readers who might be “irrational” in their selection of what information to use and how to use this information, the models construct the financial statement user as a rational economic decision-maker. Of course, the irrationality of the readers was defined by reference to the very models used to replace them. In drawing upon models, the Study Group report suggested that these were a better source of information about readers than were readers themselves. The models became the users or rather allowed ideas about users to be constructed in their image. Users existed as an abstract type or kind rather than as flesh and blood decision-makers. The complexity of readers could thereby be reduced to the rational simplicity of normative models. Readers who did not follow

<sup>20</sup> Also see Birnberg (1976) and Brief and Owen (1975) for similar justifications. The AAA Committee on External Reporting provided an even more forceful statement regarding the importance of models in determining the information that users *should* want. The committee chose to limit the users of concern to two types—investors and creditors. These were investors and creditors of an abstract kind. Rather than consulting with actual investors and creditors, the committee chose instead to rely upon “normative investor’s and creditor’s valuation models and a normative dividend model” (p. 79). It referred to this decision as both a choice and a necessity. The effect of this choice was to accept normative economic models as valid substitutes for readers of financial statements. In justifying its use of normative models rather than undertaking the development of more descriptive models, the committee stated that “...we are not interested so much in how investors and creditors use accounting information in their decision processes as we are in what information they *should* be using to meet their goals” (p. 79, emphasis added).



the model's dictates could then be easily dismissed as irrational and/or ignorant.

By relying upon ideas about users, accountants and accounting researchers could, if they chose, forego consultation with living and breathing financial statement readers. They could instead construct their ideas about users and the ways that these users connected with financial statements to align neatly with the dictates of normative models, models that were held to be the epitome of rationality. Therefore, if such models declared that future cash flows were important to investor decisions, then the report could declare that "An objective of financial statements is to provide information useful...for predicting, comparing and evaluating potential cash flows...in terms of amount, timing and related uncertainty" (Study Group, 1973, p. 20). In other words, the information that the models indicated should be significant was presumed to be useful for financial statement users. No further inquiry was considered necessary regarding the information needs of actual readers as these were assumed to be represented by the variables contained in various financial economic models.

The FASB employed a similar tactic in SFAC 1. The statement envisions the financial statement user as an individual who makes "rational investment, credit and similar decisions" (e.g., ¶34). By taking rationality as given, the FASB could then assume that the financial statement user would require certain types of information—the information theorized as relevant in various normative models. Consequently, the FASB emphasized the importance of financial statements in providing information to assess the amounts, timing and uncertainty of future cash flows (¶25, 37). By assuming that readers desire this information, the FASB also contributed to constructing the financial statement users as the rational economic actor of financial economics models.

Each report asserted that accounting should be useful to financial statement users. In making this argument, each report acted to convince us that because accounting provides information to named financial statements users, it also assumes a particular relevance, importance and usefulness. Interestingly, accounting could serve this purpose

even though accountants and accounting academics knew little about the decision models of specific readers. They could ignore differences between various types of readers and assume common information needs. Further, these information needs could be determined by reference to the types of statements already prepared by accountants or normative models. The messy, inconsistent, uneducated readers of financial statements could be replaced. By effacing differences and stressing the information that users "should" find useful, users of financial statements were being constructed as being of a particular kind—rational, future-oriented, decision-making, calculative, predictive. In its standard-setting process, the FASB has continued to connect and develop this portrait of users.

### Viewing the user in accounting standards

The accounting standards issued by the FASB continue to accord prominence to the category of financial statement user. The background sections of these standards contain frequent references to users and their wants, needs, interests, calculations.<sup>21</sup> Occasional references to readers (i.e., flesh and blood users) also occur within the pages of accounting standards. Some times, these readers indicate or state their desires for particular types of information<sup>22</sup> or comment on existing standards and Board proposals.<sup>23</sup> At other times, the FASB

<sup>21</sup> The accounting standards, FAS 1 to FAS 133, were considered in this paper. Usages of "user" or "investor and creditor" identified by searches of the FARS database were analyzed and categorized. Throughout the remainder of the paper, I adopt a convention to reference the location of particular evidence (e.g., 22¶10). This convention can be read as Statement of Financial Accounting Standard No. 22 paragraph 10. All references to accounting standards are from FASB (1999).

<sup>22</sup> See e.g., 2¶54; 5¶64; 13¶96; 14¶47, 56, 60; 15¶67; 118¶116; 130¶52; 132¶26; 133¶503.

<sup>23</sup> See e.g., 39¶51; 94¶58; 104¶17; 109¶155; 119¶67, 68; 123¶103; 128¶88; 130¶40; 131¶59.

indicates it has scheduled meetings with or solicited the views of users.<sup>24</sup> More frequently, however, the Board speaks for users and expresses its beliefs about the information that they *should* require and the accountings that *should* best serve their interests. Statements about these beliefs act as a partial justification for different accounting and disclosure requirements. At times, the Board may indicate that it believes particular information should be useful or helpful to the users of financial statements. As examples, consider the following:

The Board concluded that information about depreciable assets and depreciation policies and methods is useful to users of financial statements of not for profit organizations. Therefore, this Statement explicitly extends the requirements of Opinion 12 to not-for-profit organizations (93¶41).

The Board concluded that...the usefulness of the information to financial statement users justifies its disclosure” (87¶222).<sup>25</sup>

Similarly, proposals may be rejected when the Board asserts that they will not provide useful information (e.g., 115¶68).

In Concepts Statement No. 2, relevance was declared to be one of the two primary qualitative characteristics of accounting information. In deciding whether information is relevant, the FASB need consider only whether it has the capac-

ity to make a difference in the decisions of users (FASB, 1980, ¶46) not whether it will make a difference. Again, it is the Board’s beliefs or conclusions about what information should be relevant to users that serves as a justification for specific disclosures or accountings. Consequently, statements such as the following are found in accounting standards:

That information is considered so useful in decision making that the lack of precision associated with the estimate of proved oil and gas reserve quantities is more than compensated for by the added relevance to users” (69¶62).

The Board decided not to change the accounting by those enterprises because it believes that, for those enterprises, that accounting provides more relevant information for users of their financial statements” (115¶108).<sup>26</sup>

The Board also decides what actions will better serve the needs or interests of users:

After considering the alternatives, the Board concluded that the needs of financial statement users...necessitate establishing the plan, rather than the fund, as the reporting entity (35¶47).

The Board believes that the needs of users would be better served by providing mutual life insurance enterprises that elect to adopt generally accepted accounting principles with a more timely resolution of insurance accounting and reporting issues that is based on the existing framework of those principles (120¶25).<sup>27</sup>

These assertions are rarely connected to evidence within the pages of accounting standards. Rather in accounting standards, the FASB speaks for users and, in doing so, constructs a particular type of user as the focus for the

<sup>24</sup> See e.g., 7¶49; 79¶13; 87¶207; 95¶42; 96¶200; 109¶279; 115¶36, 119; 128¶130. Interestingly, most of these indications of the activities of users have occurred in the more recently issued accounting standards as criticism of FASB activities by preparer groups has escalated. In 2002, the FASB established a User Advisory Council “. . .to increase analyst participation in the accounting standard-setting process. The purpose of the UAC is to assist the FASB in raising awareness of how investors and investment professionals, equity and credit analysts, and rating agencies use financial information. The UAC will serve as a resource to the FASB both in formulating its technical agenda and in advising on specific agenda projects” (FASB, 2004).

<sup>25</sup> For other examples of information the Board concluded was useful (see 14¶85; 87¶218, 221, 222; 96¶144; 99¶10; 102¶20; 117¶138; 118¶18; 129¶16; 133¶269).

<sup>26</sup> Also (see 72¶38; 80¶39; 106¶5, 148, 163; 113¶72; 116¶59, 68, 102, 132; 117¶96; 128¶93) for other examples of information the FASB declared relevant.

<sup>27</sup> See 8¶198; 13¶118, 120; 52¶125; 71¶107; 97¶49; 113¶104; 114¶37; 131¶74 for similar conclusions about user needs or interests.

standard-setting process. Accounting standards are not a mirror for some users' realities (even if this were possible) but instead they contribute to constructing a particular viewpoint about what financial statement users should be like. User wants, needs, interests pass through the Board's standard-setting process and are interpreted through the prism of the conceptual framework and its emphasis on rational economic decision-makers.

These rational economic beings are calculative and so the users in accounting standards are frequently depicted as adept at making quantitative estimates and in assessing diverse economic factors. They are said to require accounting information that will assist them in preparing their own estimates of various financial items including future cash flows (69¶80, 82; 95¶108), possible future tax effects (71¶89), operating cash flows (95¶121), or credit risk (105¶100). The calculative users found in accounting standards are also described as needing disclosures that will assist them in making their own judgments about or calculations of values and risks (125¶226) and likely earnings per share (128¶137) as well as to form predictions about the future (57¶14).

In making their various calculations, users are asserted to search for an understanding of the economic transactions undertaken by an organization as well as the economic events that may impact it. This understanding of the economic is seen as necessary in helping users to improve the quality of their calculations. Helping users "to understand" is a frequently repeated purpose in accounting standards. It (and similar phrases) are reiterated in diverse contexts to justify many different types of disclosures and accounting practices. So disclosures might be required to help the user understand the effects of changing prices (33¶38; 39¶8); the broader economic implications of exchange rate changes (52¶144); the economic effects of providing pension (87¶6, 105) or other postemployment benefits (106¶5) or to understand the impacts of economic events (87¶106; 106¶144). Similarly, disclosures are said to assist in understanding the effects of off-balance sheet activities (105¶93) including their magnitude (119¶55) and type [e.g., risk management (119¶

various) and derivatives (133¶502)] as well as differences in accounting (120¶33), financial activities (130¶52), performance (131¶90) or success (133¶522) and segments of business (131¶106; 14¶62).

Within accounting standards, user calculations and their efforts at understanding the organization are pictured as directed towards a single purpose, that of economic decision making. This user calculates in order to make better economic decisions. Consequently, users require disclosures or other information in order to make better informed decisions.<sup>28</sup> The already narrow picture of users as decision makers is narrowed still further in that only certain types of decisions are deemed of interest, specifically "rational investment, credit and other decisions."<sup>29</sup> These "other decisions" are left unspecified and unexamined as the emphasis within standards is placed upon investment and credit decisions.

In keeping with the assumptions of neoclassical economics, the user conceptualized by the FASB unquestioningly prefers more cash flows (i.e., wealth) to less (with perhaps some allowance for diminishing returns). Cash is cash and profit is profit with sources of cash flows or profits considered to be irrelevant.<sup>30</sup> These standards follow the example of documents like the Study Group Report by reducing the readers of financial statements to shadowy figures who are interested *only* in the wealth they may receive at some future moment through the receipt of dividends or other types of monetary returns. All of their decisions are predicated upon assessments of future cash flows with the decision-makers/users depicted as narrow economic beings. Other matters that might contextualize the decisions made by these readers or that would acknowledge a potential multiplicity of readers with divergent decision interests and concerns are ignored. Issues other

<sup>28</sup> See e.g., 106¶161; 107¶39, 54; 115¶100; 124¶72; 106¶339.

<sup>29</sup> See e.g., 133¶220; 106¶61; 115¶39; 35¶63; 69¶56; SFAC 1 ¶34.

<sup>30</sup> See Zelizer (1994) for an alternative perspective as to the nonfungibility of cash.

than the narrowly economic which might enter into the decision calculus of a specific reader are removed. This reduction of diverse, multiple “flesh and blood” financial statement readers to an economically rational and calculating decision maker, the financial statement user, is significant as this construction forms the basis for many of the assertions made by the FASB on behalf of users within its financial accounting standards.

Within accounting standards, the users referenced seem almost invariably to require the very information that the conceptual framework has stated is of interest to them. In SFAC 1, we are told that users should be interested in assessing the amounts, timing and uncertainty of future cash flows. In the paragraphs of accounting standards, we later observe various accounting practices or disclosures being required as they may be useful in assessing these very cash flows.<sup>31</sup> SFAC 1 also stated the significance of information about performance and financial position (economic resources) in helping users to make their assessments of future cash flows (FASB, 1978, ¶41, 43). Unsurprisingly, various accounting standards justify requiring particular disclosures and practices in view of their presumed utility in facilitating assessments of performance (success) and financial position.<sup>32</sup> Because we assume users are interested in assessing the uncertainty of future cash flows, we can also assume they will likely require information to help them assess various risks and uncertainties as well as management’s responses to these. Such reasons have been given to justify requirements for diverse disclosures including those about oil and gas production (69¶87), off-balance sheet risk (105¶84), fair values of financial instruments (107¶65), and derivatives (119¶28) as well as accounting requirements and/or disclosures for computer software costs (86¶49) pensions

(87¶218) and investments in debt and equity securities (115¶119). The users envisioned within the conceptual framework are forward-looking individuals. They are continually making decisions in the present based upon their own predictions of the future. Thus, they will require information to be disclosed or provided when it possesses predictive value and can help them form estimates about the future.<sup>33</sup>

Relevant, useful. Such information must be disclosed as it may impact the decisions of users. Yet, as already noted, these assertions are seldom connected to any evidence provided by actual users (at least within the pages of accounting standards). Instead, the information is required based on the Board’s beliefs, conclusions and judgments about the information that users of a particular type should require. In this way, the standard-setting process becomes less about the information wants of particular readers of financial statements, and more about the FASB’s ideas concerning the information that users should find useful in their decision-making process. A 1994 AICPA report on external financial reporting made a similar point in criticizing accountants who “...have developed concepts and frameworks they believe are consistent with information needs and thus usually judge ideas to improve reporting based on the degree of their alignment with existing concepts rather than on more direct verification with users.” Others including Jonas and Young (1998) and Miller (1990) also argue that current standard-setting fails to focus on actual users needs. While the conceptual framework and its precursors worked to construct financial statement users as being of a particular type, this process did not end with the issuance of these documents. The standard-setting process also acts to maintain the idea of the user constructed within the conceptual framework even as this user is employed as a justification for specific requirements. In this way, the construction of the user is never quite completed but is ongoing through the standard-setting process.

<sup>31</sup> See e.g., 33¶121, 123, 130, etc.; 34¶42; 39¶51; 41¶17, 18; 54¶7; 63¶21; 69¶80, 83, 106; 70¶62; 77¶38; 95¶51; 105¶71; 106¶343; 107¶40; 115¶40; 117¶76; 131¶3.

<sup>32</sup> See e.g., 8¶215, 224; 13¶96, 103; 14¶71, 75, 80; 33¶various; 41¶17; 52¶144; 69¶103; 86¶49; 106¶149; 107¶41; 116¶102; 119¶63; 124¶35.

<sup>33</sup> See e.g., 35¶68; 57¶14; 69¶93, 94; 71¶89; 107¶40; 128¶80.

## Concluding comments

To enhance uniformity and facilitate accounting choice, many accountants had urged the development of objectives for accounting and accounting statements. In selecting a why or purpose for accounting, various committees chose to connect accounting to financial statement users. However, actual users were viewed as multiple, conflicting, inconsistent, uneducated. Not only were they unreliable but little was known about their decision processes. To surmount these difficulties and still connect accounting to financial statement users, other choices were made. One such choice effaced differences between the various types of readers and focused attention upon investors and creditors. Another choice resulted in the substitution of normative models and assertions for readers to determine the information that they *should* want. The FASB (and other participants in the standard-setting process) have constructed (and continue to construct) a very specific and quite limited image of the financial statement user—a rational economic decision-maker. The qualifier of “rational” is highly significant. In specifying that the decisions of interest are rational, behavior that contradicts financial economics models (i.e., irrational behavior) can be disregarded. Indeed, if disclosures can be connected to the prediction of future cash flows (including their uncertainty), they can be said to be needed by rational decision makers.<sup>34</sup> The decisions of these rational economic users seemingly occur within a timeless and static economic framework. Timeless and static in that a “rational decision” requires no context but can be assumed to be the same across time periods, economic situations and decision makers. These presumptions remain despite psychological research that suggests decision contexts impact decision makers (e.g., Einhorn & Hogarth, 1987; Tversky & Kahneman, 1987). An insistence upon the rationality of users works to distance the flesh and blood readers

alluded to in certain standards from the information that should be provided by financial statements. In stressing the “rational,” users can be seen more as hypothetical readers of financial statements than as actual readers. Hypothetical, as we can presume that they behave in particular ways (otherwise they are irrational) and that they are therefore interested in only particular types of information.

The limited conception of the financial statement users allows (necessitates) an equally narrow conception for the purpose of accounting reports. The rational economic decision maker that is the current focus of standard-setting is primarily concerned with economic events and transactions and with predicting their impacts upon an entity’s future cash flows, future profitability and future financial position. Meaningful, significant and useful information are defined only with respect to their supposed utility in forming such predictions and expectations. Other types of information that might be construed as meaningful, significant or useful under an alternative construction of the financial statement user can be easily dismissed as falling outside the “appropriate” purview of financial statements. Consequently, the attention of the standard-setting organization remains firmly fixed on economic events and transactions particularly those that are quantifiable.

In these ways, this conception/construction of the financial statement user works to embed accounting and accounting standard-setting more deeply within an economic discourse that holds efficiency and growth as the appropriate ends for organizations. Corporate choices and results are to be evaluated only in terms of their contributions to these ends. This tight connection of accounting to an economic decision-maker qua investor/creditor severely limits the possible accountability relationships that might be enacted through and reported in accounting statements. As Shearer (2002, p. 570) has forcefully argued the almost exclusive focus of accounting on investors and creditors precludes its employment in reporting on any “moral responsibility that might be owed by the economic agent to parties other than the entity’s owners” (Shearer, 2002, p. 570). From the perspective of a rational, economic decision-

<sup>34</sup> Disclosures will then be required as long as their benefits are claimed to exceed their costs.



maker, sweatshop labor is significant or meaningful only to the extent it reduces cash outflows (and increases profits) by reducing labor costs. Likewise, the elimination of health care benefits or the adoption of cash balance type pension plans can be considered meaningful or significant only to the extent that these actions may reduce an entity's future obligations (and thereby, decrease its future cash outflows). An accounting focused on the provision of information useful to economic claimants portrayed as rational economic decision-makers has little utility for developing reporting requirements that might help enact the accountability relationships that exist between a corporate entity and employees. Indeed, the impact of corporate actions and choices upon the lives of current and former employees, the environment, communities and almost anyone or anything other than investors and creditors is likely to be regarded as irrelevant, insignificant, meaningless and inappropriate for inclusion in accounting reports.

The current emphasis upon decision usefulness and rational economic decision makers was not a "natural" and inevitable progression in the development of accounting practice and thought. Other purposes for accounting could have been selected and/or other users for accounting could have been emphasized. By making other choices, we might explore more fully how accounting could contribute to reporting on an economic

accountability that is more broadly defined to encompass the moral dimensions of economic life. Other purposes for accounting can be defined/other models of a financial statement user constructed—models in which reporting on the "health" of relationships between economic entities, employees, communities and the environment are given as much or more emphasis than are the measurement of cash flows, profits and financial position. The difficulty of changing the purpose(s) we assign to accounting within the existing political and economic environment cannot be overestimated. However, change certainly cannot occur if decision usefulness remains taken for granted as the primary purpose of accounting with its assumption that financial statements users desire only information of the type outlined in the conceptual framework.

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#### Appendix. Chronological listing of reports and various events

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|------|---|
| 1964 | AAA appoints committee to develop conceptual framework for accounting   |
| 1966 | AAA Committee produces ASOBAT. Committee members include Norton Bedford, R. Lee Brummet, Neil Churchill, Russell Morrison, Roland Salmonson, George Sorter, Lawrence Vance and Charles Zlatkovich, chair  |
| 1971 | AICPA forms two study groups: <ol style="list-style-type: none"> <li>1. Wheat Commission to examine process of establishing accounting standards</li> <li>2. Trueblood Committee to develop objectives of financial statements. The committee members include Richard Cyert, Sidney Davidson, James Don Edwards, Oscar Gellein, C. Reed Parker, Andrew Reinhart, Robert Trueblood, Chairman; Howard Wagner and Frank T. Weston. George Sorter is appointed research director</li> </ol> |
| 1973 | Trueblood Committee issues its report, <i>Objectives of Financial Statements</i><br>FASB is formed to replace the APB   |
| 1978 | FASB issues SFAC 1, <i>Objectives of Financial Reporting by Business Enterprises</i>  |
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