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Range of Potential Parameters

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A statement on objectives must have a defined scope. The question is whether the scope evolves from the analysis of the problem being considered or whether it is imposed initially as a given. If it is imposed initially, the justification for the scope necessarily lies outside the inquiry of the Study Group on the Objectives of Financial Statements. However, if the scope does evolve from the deliberations of the Study Group, it must be justified by the nature of the study.

As an example, four possible parameters that the Study Group might consider for this project could be discussed. One concerns the audience to which financial statements are directed; for example, the Study Group could define the objectives of financial statements exclusively for the audience of credit grantors. A second dimension concerns the format of financial statements; the Study Group could, if it wished, limit the stated objectives of financial statements to the currently prepared financial reports, or to any specified set of financial reports. Third, there could be a restriction on the set of permissible accounting principles that can be used; e.g., the objectives of financial statements could be limited to statements prepared in conformity with presently accepted accounting principles. Fourth, the Study Group could adopt a limit on the time during which the objectives can feasibly be implemented. For example, a possible combination of parameters would require the Study Group to investigate the objectives of currently existing financial statements prepared in conformity with prevailing accounting principles aimed at an audience of credit grantors and capable of implementation within one month.

If limits like these are adopted initially, the objectives of financial statements would to a large degree be defined by initial givens and not through the inquiry of the Study Group. If a particular set of parameters is useful, it should evolve from the Study Group’s endeavor instead of being imposed initially. Any initial exclusion limits the degree of freedom of the Study Group
to formulate the objectives of financial statements. The more that is initially
excluded from the study the smaller will be the set of accounting variables
that may be affected by the objectives.

Thus, there is no set of unique objectives of financial statements that can
be formulated. Rather, a set of objectives may be formulated for each set of
parameters or “givens” that the Study Group accepts. This can, perhaps,
best be illustrated by expanding on some selected parameters and how they
may affect the possible conclusions.

The Specified Accounting Principles

If any prespecified set of accounting principles is accepted, only account-
ing methods compatible with these principles can be used. Thus, objectives
that require methods which are incompatible with these principles cannot
be considered. For example, if prevailing principles are assumed as given,
the Study Group can only seek the most appropriate choice of historical
cost depreciation methods most useful for formulating expectations about a
firm’s cash flows. This choice of methods is clearly a narrower objective
than the choice of information useful for formulating such expectations
without the historical cost constraint. This broader objective may necessitate
deviating from prevailing principles; consequently, to assume these principles
as given would preclude the formulation of such an objective. In terms of
another example, if prevailing principles are accepted, human resources can
be reported only in limited circumstances and then only in terms of cost. If
these principles are not assumed as given, pre-set limits do not exist as to
whether human resources should be valued and, if so, how they should be
valued.

Prespecified Standards

The Study Group may not decide to designate prespecified principles. It
may wish to consider accepting some prespecified standards such as
relevance, quantifiability, or attestability. Such prespecified standards are not
unduly restrictive if they are defined to cover a wide range. For example,
anything is quantifiable in a sense through some system of assigning
numerical values to attributes. For instance, a dollar value can be assigned
to each letter of the alphabet so that every word can be quantified. If quanti-
fiability, however, is defined in terms of a specific system of assigning values
or if attestability is similarly defined in terms of a specific form, then the
setting of these standards becomes restrictive. For example, the appropriate
form of attesting to forecasts may differ from the appropriate form of attesting
to measures of historical transactions. If the form of attestation is limited to
historical transactions, the formulation of objectives which incorporate fore-
casts may be precluded. This restriction could impede trade-offs between
conflicting standards such as relevance and attestability. It is possible that
more relevant data are less rigorously attestable. Specification of these
standards in rigid or narrow terms lessens the flexibility in setting objectives.
Existing Financial Statements

The Study Group could assume that presently required financial statements such as a balance sheet, an income statement, etc., are the only ones that should be prepared. This would mean that only those objectives consistent with preparation of these statements could be considered. Such an assumption would delimit the possible objectives since it would rule out other nontraditional sets of reports that may be required to reach broader objectives. It would also preclude eliminating presently required reports which may not be necessary in view of the proposed objectives or for which the cost of preparation might exceed anticipated benefits.

The Users

Objectives may be set in light of the need of one or more groups of users. Conceivably, the sets of objectives could differ depending upon the user group considered. For example, the objectives could differ if the decision needs of creditors only are considered, or if the decision needs of both creditors and existing investors are considered or if all potential users’ needs are considered. The smaller the sub-set of user groups that is considered, the narrower the set of objectives. Consideration of only one group of users would implicitly and indirectly limit the scope of the study.

General Purpose vs. Special Purpose Statements

The objectives of financial statements could be formulated given the requirement that the same set of financial statements must be provided for all users. Alternatively, this requirement could be relaxed to allow for the provision of diverse statements for specific uses and for diverse users. Permitting the possibility of both general purpose and special purpose statements facilitates the formulation of wider and more encompassing objectives. The possibility of special purpose statements permits serving the specific needs of more than one group of users that cannot be adequately served by a single set of general purpose statements. This possibility also permits the accommodation of more than one set of objectives for each user group.

Diversity of Objectives and Circumstances

As indicated, diverse sets of objectives could conceivably exist for any group of users or for any single user. These objectives will depend not only on the specific decision needs of the user at a particular point in time but also on the particular circumstances under which these decisions are made. The Study Group could consider all such possible circumstances and decision needs or it could limit itself to a sub-set thereof.

The Reporting Entity

Should the task of formulating objectives be limited to enterprises organized for profit or should it be extended to all types of enterprises in-
including not-for-profit organizations, governmental bodies, etc? Objectives that are set in light of all kinds of organizations will probably entail more than just profit maximization. Thus, the more diverse the reporting entities that are considered, the wider the range of objectives that may be formulated.

The Private and Social Sectors

The objectives could be limited, for example, to provide information that facilitates the maximization of stockholders’ wealth, or the objectives could be expanded to include the optimization of social welfare or social wealth. When social values (costs or benefits) do not diverge from private values as presently measured, the individual firm’s goals—i.e., the maximization of stockholders’ wealth—are consistent with the social goals, and no broadening of accounting objectives is needed to accommodate these. However, when there is a divergence between social values and private values, the maximization of the individual firm’s short-run wealth as an objective may not be sufficient to bring about a social optimum. If the broader objective of optimizing the social welfare (as well as possibly the long-run private welfare) is accepted, the financial statements must be broadened to include the provision of information about social costs and benefits.

The Descriptive and the Normative

The objectives of financial statements could be considered only in light of decision models that should be used (normative models). Alternatively, the objectives of financial statements could be formulated by considering only the decision models and the goals that are actually used and implemented by decision makers (descriptive models). Finally, the objectives could be formulated in light of both the normative and the descriptive.

Implementation Time

Independent of, but applicable to, all of the above is the possible requirement that the objectives to be considered must be capable of being implemented within a given time period. It might be stipulated that the formulated objectives must be such that they could be implemented within a year, within five years, etc. If a short time span is adopted, this could serve to delimit the objectives to those essentially compatible with existing practice and beliefs since these require little time to implement. On the other hand, adopting an unreasonably long span of implementation could serve to limit the acceptability of the Study Group’s conclusions.

Conclusions

All the above possible parameters are interrelated and many combinations are conceivable. It has been demonstrated that the more “givens” that are assumed, the narrower and the more limited becomes the possible range of objectives; the less that is assumed, the broader and more encompassing the objectives can be. This interdependence makes the imposition of restrictions troublesome. If a large number of initial “givens” that are
unchangeable is specified, the Study Group will have implicitly defined a portion of the objectives that it was originally charged to formulate without justifying these through its work and deliberations. The foregoing analysis suggests that the parameters of the study should evolve from the work of the Study Group.

Once the initial "givens" are agreed upon, the objectives may then be formulated at various levels. The absence of preimposed parameters does not mean that the objectives could only be formulated at the highest level of generality. In other words, the absence of givens would not imply that the Study Group's work is done by issuing a pronouncement that the objective of financial statements is to provide useful information. While this may be the desired objective in the most general terms, the task would then be to formulate more specific subobjectives at various levels consistent with and deriving from the more general objectives. Thus, while none of the parameters used as examples may be accepted as "givens," some or all of them may well evolve as subobjectives as a result of the study.