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Objectives of Financial Statements

American Institute of Certified Public Accountants

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Economic Decision-Making and the Role Of Accounting Information

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Individuals and private organizations that control or use economic resources\(^1\) make decisions concerning them. Economic decisions involve production, distribution, exchange, consumption, saving, and investment of economic resources.

**Private and Public Goals**

Economic decisions are made to serve the goals of individuals and private organizations (private goals) and society as a whole (public goals). Private goals seek to increase present or prospective control and use of economic resources and to reduce uncertainty concerning the control and use of them. Public goals include protecting the economic welfare of individuals and increasing the economic welfare of society as a whole so as to effect an efficient allocation of resources.

In a society such as the United States that emphasizes private enterprise, decisions made to serve private goals are encouraged by laws that define property rights, promote competition, and establish efficient markets. These laws are enacted in the belief that many decisions designed to serve private goals will result in an efficient allocation of resources. However, both private and public goals may change over time. Consequently, laws are modified when economic decisions that are designed to serve private goals conflict with public goals. Resulting changes in laws may either modify or control the ability of individuals and organizations to make economic decisions by transferring such decisions to governmental units. Laws are enacted, for example, to redistribute wealth or income, regulate monopolies, and improve social welfare and the quality of life. The economic decisions of persons

\(^1\) "Economic resources are the scarce means (limited in supply relative to desired uses) available for carrying on economic activities." APB Statement No. 4, paragraph 57.
and organizations are thus made continuously to serve not only private goals but also societal goals to achieve an efficient allocation of resources.

Those who make economic decisions need information to achieve desired goals. Decisions made without adequate information result in the achievement of desired goals only by chance. The need to make informed economic decisions to serve private and public goals and to achieve an efficient allocation of resources identifies the basic goal of financial statements, expressed as follows:

Financial statements should provide information useful in making economic decisions that result in an efficient allocation of resources.

Achieving the Basic Goal

In developing the objectives of financial statements for achieving the basic goal, the economic decisions made in an attempt to achieve private and public goals must be considered. Investigations must be undertaken to determine the information required for the decisions, and characteristics that make information useful for the decisions must be identified. Finally, the portion of the required information that can be best communicated in financial statements must be determined.

Economic decisions are made by individuals and private organizations (private economic decisions) to serve private goals and also to serve public goals. Similar decisions are made by governmental units (public economic decisions) to serve public goals. Information provided by financial statements is required for both private and public economic decisions. Therefore, the objectives of financial statements must be responsive to the needs of decision-makers in both the private and public sectors.

Economic Decisions

Economic decisions are made for the purpose of achieving a variety of goals. In spite of their diversity, all economic decisions have a feature in common: each decision involves benefits and sacrifices. Decision-makers are interested in determining how much they must surrender or give up (sacrifice) in order to receive something else which is presumed to be better (benefit). A benefit is defined as anything received that is considered to be advantageous or for the good of a person or thing; a sacrifice is defined as anything given up or the using up of something that is prized or desirable. Sacrifices and benefits are therefore considered to be anything given or received, respectively, including in each case foregone opportunities. Three dimensions of sacrifices and benefits are considered important for every economic decision, that is, the amount (how much?), the timing (when?), and the uncertainty relating to amount and timing (the risk). Economic decisions continually relate to transformations and trade-offs concerning these dimensions of sacrifices and benefits. When borrowing money, for example, amount is sacrificed in exchange for timing. When lending money, timing and risk are sacrificed in exchange for a greater amount. The insured, in obtaining
casualty insurance, sacrifices amount and timing in exchange for reduced risk. By paying premiums before casualties occur, a sacrifice is incurred earlier than by not insuring. Premiums received by the insurance company are anticipated to be larger than the expected amount of the casualty losses by an amount sufficient to cover expenses and contribute toward profit; amount is also sacrificed in this case. The insured, however, receives certainty in exchange.

**Estimating Benefits and Sacrifices**

An economic decision-maker must explicitly or implicitly estimate the amount, timing, and related uncertainty of benefits and sacrifices affected by decisions. Since part or all of the benefits or sacrifices lies in the future, these variables cannot be known with certainty.

A potential buyer of a security, for example, may know the sacrifice which would be incurred in buying the security, that is, how much money would have to be paid. The potential buyer, however, does not know the amounts, timing, or uncertainty associated with future receipts. A potential seller of a security, on the other hand, may know the benefits that would be received from selling the security, that is, how much money would be received. The potential seller, however, does not know the sacrifice which would be incurred. The sacrifice in selling the security is the benefits which would have been received had the security not been sold. Since the foregone benefits would have been received in the future, the potential seller does not know the amounts, timing, or uncertainty of the foregone benefits. Therefore, information in financial statements should help decision-makers to estimate the economic benefits and sacrifices which result from decisions.

**Comparing Benefits and Sacrifices of Alternative Courses of Action**

Some economic decisions consist of choosing between only two courses of action. Although only one alternative course of action may have been explicitly selected for evaluation, maintaining the status quo is treated as an alternative in all instances. Most economic decisions, however, involve choosing from among several competing alternative courses of action. Even the explicit consideration of multiple alternatives may result in selection of the status quo as being more desirable. Economic decisions therefore require a comparison of estimated benefits and sacrifices of competing courses of action. Information in financial statements should help decision-makers to compare the estimated benefits and sacrifices associated with alternative courses of action.

**Controlling Benefits and Sacrifices**

Since some or all of the benefits or sacrifices of a decision may lie in the future, the decision-maker would like to control the outcome of the decision to the extent possible. This is the reason that a creditor, for example, may insist on certain indenture provisions, and why an owner may
be concerned with the conformity of enterprise activities with established goals as well as the safeguarding of assets. Various economic decisions provide different opportunities for control. Information in financial statements should help decision-makers to control the sacrifices and benefits that result from their decisions.

**Evaluating Past Events**

Past results are all that is known with certainty. Since all economic decisions concern the future, conjecture about what may happen is necessarily based in part on information concerning what has happened. That is, knowledge about past events is not sufficient for predicting the future. Also required is an evaluation of past events in terms of the variables relevant for decisions under review. Thus, to facilitate the estimation, comparison, and control of future sacrifice-benefit relationships, information in financial statements should help decision-makers evaluate past sacrifice-benefit relationships.

In summary, the foregoing analysis indicates four general criteria which characterize information considered useful for private economic decisions. Useful information helps a decision-maker to evaluate past benefits and sacrifices and to estimate, compare, and control the amount, timing, and related uncertainty of future benefits and sacrifices which result from decisions. The following important questions remain: (1) What types of information are needed to help the decision-maker to evaluate past benefits and sacrifices and to estimate, compare, and control future benefits and sacrifices? (2) What portion of such information should financial statements provide?

**Information Needed to Evaluate, Estimate, Compare, and Control Benefits and Sacrifices**

The decision-maker is of course interested in evaluating, estimating, comparing, and controlling benefits and sacrifices. For example, investors and creditors are interested in the amount, timing, and related uncertainty of cash inflows and outflows. However, benefits and sacrifices, as they relate to the achievement of the decision-maker's personal goals, are influenced by activities of the enterprise in which investors (present and potential) have an interest.

Goals of each enterprise are either explicitly stated or implicitly held. They define the purpose and nature of the organization. All managerial decision-making and, in fact, all enterprise actions are directed toward the attainment of its goals. Information that enables users to evaluate enterprise goal attainment and to estimate, compare, and control the prospects for future goal attainment is the essence of all decisions concerning an enterprise. This is true whether these decisions are made internally by management or externally by investors, creditors, donors, or governmental agencies.

It might be argued that external decision-makers are merely concerned with information which relates to their own goals as opposed to information about enterprise goals. Investors might be interested only in the dividends
they receive and the market value of the stock they own, evaluated in terms of their own risk and return preferences regardless of the success of the enterprise in terms of its risk and return goals. Similarly, contributors to a university who are primarily interested in educational opportunities for a maximum number of students might look only to the number of students granted or expected to be granted degrees. These contributors may not be interested in the success of the university in terms of its teaching and research goals.

However, the personal goals of external decision-makers are accomplished through enterprise activities aimed at accomplishing enterprise goals. While an enterprise may occasionally, through its actions, succeed in satisfying a decision-maker with divergent goals, this situation is not likely to persist. The external decision-maker must determine whether the achievement or prospective achievement of his goals is causally or accidentally related to enterprise goals. Each decision-maker is interested in the goals of the enterprise and how they relate to his personal goals. Information about past and prospective success of the enterprise in achieving its goals has an important impact on the decision-maker's perception of his personal goal accomplishment.

In summary, information in financial statements should enable users to evaluate, estimate, compare, and control the goal attainment of an enterprise.

Sacrifices and Benefits in Relation to Goal Attainment

The goals of a specific organization define what is considered advantageous or good, prized, or desirable and therefore define the nature of sacrifices and benefits for the organization. What represents a primary benefit or sacrifice for one organization may be a secondary benefit or sacrifice for another. For instance, a hospital which has profit as one of its goals may consider patient receipts as a primary benefit and thus take action aimed at maximizing such receipts. A not-for-profit hospital, for instance, is more willing to perform services for patients who cannot afford to pay. This is not to suggest that a not-for-profit organization is not interested in monetary matters but to indicate that its goals define primary benefits in a different manner.

Given the definition of sacrifices and benefits, goal attainment for any enterprise involves an attempt to maximize benefits and minimize sacrifices. The maximization of benefits—in a broad sense—means increasing the quantity of benefits, accelerating the timing of the benefits, and decreasing the related uncertainty associated with amount and timing. Similarly, the minimization of sacrifices—in a broad sense—means decreasing the quantity of sacrifices, postponing the timing, and decreasing the related uncertainty associated with amount and timing.

Therefore, the assessment of enterprise goal attainment requires information which will facilitate analysis of sacrifice-benefit relationships. All purposeful events of an enterprise, since their primary purpose is to accom-
plish enterprise goals, have certain sacrifice-benefit objectives. Events having a common sacrifice-benefit objective may be said to constitute an events cycle. For example, both the purchase and sale of inventory are distinct events that generally do not occur simultaneously, but they are clearly related in terms of purpose and consequently constitute part of the same events cycle. Cycles may be classified in terms of the three different stages of sacrifice-benefit relationships: events that are part of a completed sacrifice-benefit relationship, events that are part of an incomplete sacrifice-benefit relationship, and events that are part of a contemplated sacrifice-benefit relationship.

**Completed cycles of events.** These are cycles of events where all related events have occurred. They represent a completed sacrifice-benefit relationship such as the purchase and subsequent sale of inventory. The sacrifice of having purchased the inventory will yield no future benefits and the benefits realized from the sale of inventory will require no future sacrifices.

**Incomplete cycles of events.** An incomplete cycle of events represents a chain of events which are all part of an incomplete sacrifice-benefit relationship. A sacrifice may have been incurred, but a related benefit has not yet been realized; a benefit may have been realized, but subsequent sacrifices are required. For example, inventory that is purchased and awaiting sale represents an event which is part of an incomplete cycle.

**Contemplated cycles of events.** This classification represents sacrifice-benefit relationships which are planned although none of the events, that is, none of the sacrifices or benefits, have occurred.

For purposes of evaluation, estimation, and control, these three cycle classifications must be distinguished. Criteria for evaluating completed cycles must differ from those used for evaluating incomplete or contemplated cycles. Since all related benefits and sacrifices have already occurred, a relatively comprehensive and definitive evaluation of events which are part of a completed cycle is possible.

Incomplete cycles, on the other hand, must be evaluated not only in terms of the events that have occurred, but also by considering the prospective outcome of related future events. Thus, an evaluation of incomplete cycles is much more conditional than in the case of completed cycles.

Contemplated cycles also require evaluation. Since all events, however, are yet to occur, such an evaluation necessarily is more concerned with the planning process underlying the contemplated activities rather than information about the activities themselves.

Information about the different cycles is also utilized differently for estimation purposes. Information about past cycles can only be used inferentially in estimating the future; since the events constituting completed cycles lie wholly in the past and are interpreted to have no future consequences, these events need not be explicitly considered in estimating the future. Rather, information about completed cycles constitutes an important
basis for projection after a judgment has been made as to what extent past relationships are considered indicative and relevant for the future.

In contrast to the above, information about incomplete cycles must be explicitly considered in estimating the future. Information about incomplete cycles describes sacrifices that have occurred which are expected to yield benefits in the future and benefits that have been received which will require future sacrifices. In estimating future sacrifices and benefits, therefore, this type of information must be explicitly considered.

Information about contemplated cycles is utilized in another, more different manner for estimation purposes. While information about plans and expectations is clearly relevant for estimation, such information is necessarily subjective and incapable of direct validation. It must therefore be separately analyzed and carefully distinguished from information capable of being partially or completely validated.

Events which are part of a completed cycle, of course, can no longer be controlled. Information about completed cycles plays a role in the control process only to the extent that it indicates areas that might have been managed differently in the past. Such information may thus provide insight into the control of similar events in the future.

Incomplete cycles are partially amenable to control and partially beyond control. Some costs are sunk, but the benefits to be realized from such sunk costs are to an extent controllable. Contemplated cycles are alterable to a much greater degree and thus provide the greatest opportunity for control.  

Factual and Interpretive Information

Financial statement users ultimately rely on their own assessment of past and future enterprise goal attainment. Two types of information are useful for enabling the user to make such an assessment. The first type is factual information about the occurrence of events which minimizes the judgments and interpretations of the supplier of information. The second type is interpretive information that incorporates the judgment of the supplier of information concerning the relationships among events in terms of goal attainment and the implication of past events in terms of future goal attainment.

Factual information is not sufficient because the user is not in the best position to identify and assess the relationships of events in terms of goal attainment. Thus, given only factual information, a user would find it difficult to relate sacrifices made in one period with the related benefits realized in a subsequent period. On the other hand, merely providing interpretive information that relates sacrifices and benefits and indicates contemplated future consequences of past events is not sufficient. If only interpretive information were provided, the user would have no available means for evaluating the interpretations of the preparer in terms of his own preferences and expectations. For example, the amounts presently disclosed on a balance sheet as

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2 The rationale for partitioning enterprise activities in terms of cycles is more fully developed in the paper, “The Partitioning Dilemma,” contained in this volume.
plant, buildings, and equipment reveal the portion of past sacrifices that are interpreted by the preparer to result in expected future benefits. Such interpretive information is useful. However, factual information is also useful for describing the acquisition of buildings and equipment; such information is currently provided in funds statements. In conjunction with other information it can be used to validate or revise the judgments of preparers.

Information Generated by the Accounting Process

Accounting encompasses two processes: a data generation process and a data communication process. In generating data, accounting describes certain events or conditions principally in monetary terms using accounting terminology. For example, the purchase of 100 widgets for $1,000 generates accounting data in the form of an inventory increase of $1,000 and a cash decrease of $1,000.

In the past, information communicated in financial statements has tended to be restricted to information generated by the accounting process. However, such a limitation does not adequately serve the goals discussed above. For instance, because of the many uncertainties involved, it may be unsuitable to generate an accounting description in terms of dollar amount of assets of the oil reserves of a particular concern. However, this should not mean that a nonaccounting generated description of oil reserves, such as the number of estimated barrels, should not be included in financial statements if such information is useful for the estimation, evaluation, and control of sacrifice-benefit relationships.

In summary, all decision-makers are interested in achieving their personal goals. Since the accomplishment of these goals is dependent upon the goal accomplishment of the relevant enterprise, decision-makers are interested in the past and prospective goal attainment of the enterprise. Therefore, decision-makers desire information useful for evaluating, estimating, comparing and controlling the amount, timing, and uncertainty of the sacrifices and benefits of an organization. Such information should consist of both factual and interpretive information, should separately describe completed, incomplete, and contemplated cycles of events, and should not be restricted to data generated by the accounting process.

Information to Be Provided in Financial Statements

The preceding section discusses information considered to be relevant for the evaluation, estimation, comparison, and control of benefits and sacrifices. However, financial statements are only one of many different sources of information, and not all information which is relevant can or should be communicated by financial statements.

First, one cannot require that all relevant information be communicated. One must consider cost-benefit criteria. Information may be beneficial for assessing the goal attainment of an enterprise, but the cost of obtaining and disclosing this information may be greater than the potential benefit. Such
information should not be required to be reported by any information source. Any attempt to apply these cost-benefit criteria would be particularly bothersome, because the benefits of information may accrue to parties who do not share in their cost. A company, for example, assumes the cost of preparing financial statements that will benefit prospective shareholders and the economy in general. Resolution of these conflicts is a difficult problem which lies with the business community as well as legal and political processes. It is important, however, to stress that information requirements must be subjected to a cost-benefit analysis.

Second, even if the cost-benefit comparison is favorable, such that the information should be reported by some information source, it is not implied that all such information should be reported by financial statements. Information should not be communicated by financial statements if other channels have a comparative advantage in communicating it.

Third, information should be communicated in financial statements only if its credibility is reasonably ascertainable. Users have the expectation that information in financial statements is reliable, impartial, and unbiased. Such expectations provide a useful device for distinguishing financial statement information from other types.

In summary, all information useful for the evaluation, estimation, comparison, and control of enterprise goal attainment should be provided in financial statements unless (1) the cost-benefit criteria are not met, (2) the information can be more advantageously communicated by other media, or (3) the information is such that its credibility is not reasonably establishable.

Although the foregoing requirements are not inconsistent with existing financial statements, they indicate avenues for changing and improving present financial reporting. The present content of the income statement closely approximates, in general, completed cycle activity; the existing balance sheet by and large describes incomplete cycles. In fact, each item on the balance sheet, whether asset or equity, either has a prospective dimension or else it would not be listed. Each asset connotes a future benefit and each liability a future sacrifice. In this sense, the above analysis provides a rationale and justification for the financial statements currently issued.

The analysis also suggests, however, that the utility of the reports lies in highlighting sacrifice-benefit relationships. In the income statement the relationship between past benefits and past sacrifices is disclosed; in the balance sheet the relationship between past sacrifices and prospective benefits (assets) and past benefits and prospective sacrifices (liabilities) is described. By implication, it seems that the balance sheet should disclose both sacrifice and benefit dimensions of assets and liabilities rather than only one or the other as is presently the case. Another implication can be reasonably justified: The relative certainty or uncertainty concerning the prospective benefits and sacrifices should be disclosed, and more detailed information under a separate classification should be provided for highly uncertain items. In addition, assets and liabilities should be grouped in terms of both the controllability of the prospective benefits or sacrifices and the
sensitivity of these phenomena to changes in the industry or economy. On the income statement the variability of sacrifice-benefit relationships should be highlighted through a proper grouping of sacrifices and benefits.

The statement of changes in financial position or funds statement is not unlike the required statement presenting factual rather than interpretive information. The preceding analysis, however, provides a rationale for this financial statement; its purpose is explicitly stated as providing factual information concerning events which are expected to influence goal attainment as opposed to mere description of how the events affect working capital.

Conspicuously absent from present financial statements is information concerning contemplated cycles of events. This situation can be explained in many ways, some of which, however, are not appropriate in terms of the foregoing analysis. It is argued that accounting should deal only with history and therefore not deal with plans and forecasts. While the future is indeed the subject matter of forecasts, once formulated they become part of the past, that is, history. If forecasts are communicated, such communication does not imply that the forecasted events will occur, but rather that a plan or forecast concerning such events has taken place. Credibility concerning the occurrence of future events is of course impossible to establish, but it is possible to establish the credibility that a forecast was made and that it was formulated in a specified manner. Related to this issue is the assertion often made that forecasts are too inaccurate to be communicated. But the utility of a forecast as a type of financial statement is established not by the accuracy of the forecast itself, but rather by the accuracy of the resulting estimates made by users of financial statements. The central question is whether the estimates made by such users are more or less satisfactory with or without including forecasts as one of the enterprise financial statements.

The above analysis is applicable to all users and to all organizations, regardless of their specific goals. A brief application of this analysis for economic decisions which involve pecuniary benefits and sacrifices concerning profit-making enterprises follows.

Information Required for Credit and Investment Decisions Concerning Profit-Oriented Enterprises

The primary decisions involving pecuniary benefits and sacrifices are credit and investment decisions.

Credit Decisions

A creditor loans money in exchange for a promise to receive money in the future. He knows his potential sacrifice, that is, the amount he expects to loan. Although he knows the amounts and dates of the promised payments, he nevertheless does not know what benefits will actually be received. He does not know if the borrower will be able to make the future payments when due. Thus, he is uncertain about both the amount and timing of his
future benefits. The borrower in a credit decision similarly knows the amount of money he will receive and the terms of the repayment that he promises, but he is not certain of his future ability to make repayments when due and the potential sacrifices that such repayments will entail.

Since repayments lie in the future, they cannot be known with certainty, and both the lender and the borrower need information useful for evaluating the borrower’s past success in meeting such obligations. They both also need information that will allow them to estimate the amounts, timing, and uncertainty concerning the future repayments. The lender needs to compare such information with alternative loan opportunities. The borrower needs information that will allow him to manage his resources and to control his activities such that repayment will be possible, and the lender needs information to determine loan provisions to control the borrower’s activity.

**Investment Decisions**

An investor makes two types of related decisions: whether to buy specific equity securities and whether to sell specific equity securities. His decisions involve choosing from among competing opportunities to buy and sell securities. He knows the sacrifice involved in buying securities, that is, the cost of the securities, but he does not know the benefits from the purchase, that is, the cash dividends he will receive and the proceeds from sale of the securities. Similarly, he knows the benefits from selling securities, that is, the proceeds from the sale, but he does not know the sacrifices involved in the sale, that is, the future cash dividends and selling price foregone. The unknown elements are therefore similar in both buying and selling investment decisions—the future dividends and selling prices of the security. The benefits to be derived from credit or investment decisions, that is, the interest or dividends to be received from a firm and the proceeds to be realized from the sale of an investment, all depend on the cash generating ability of the firm.

The principal goal of profit-oriented concerns is to return to owners of the firm over its life a maximum amount of cash over and above their original contributions. Thus, the attainment of this goal is also dependent upon cash generating ability. Therefore, there is a congruence of goals between creditors and investors and the goals of the firm in terms of maximizing cash generating ability. Consequently, financial statements of profit-oriented concerns should be useful for evaluating, estimating, comparing, and controlling the cash generating ability of a firm. Sacrifices and benefits for such firms must be defined in terms of cash generating ability. Benefits for profit-making concerns are actual or prospective receipts of cash; sacrifices are defined as actual or prospective cash disbursements.

The income statement, or statement of completed cycles, should provide information about cycles of events whose impact on the firm’s cash generating ability...
ing ability has been determined. Such a statement should report as revenues and expenses those benefits and sacrifices that have been realized in terms of cash generating ability.

A benefit is realized and therefore recognized as revenue when a cash inflow has occurred or is highly probable and no further related unrealized sacrifice need be incurred. Similarly a sacrifice is realized and recognized as an expense when a cash outflow has occurred or is highly probable and when no further related unrealized benefit is expected. Actual receipt or disbursement of cash is not required for realization, but the cash impact of an event must be determinable with a high degree of probability in order for realization to occur. 4

The balance sheets of profit-oriented organizations should describe those cycles of events whose impact on the cash generating ability of a firm has not been determined with a high degree of probability. The sacrifice and benefit dimensions of assets and equities shown in such balance sheets should be measured in terms of actual or prospective cash impact. This provides a guideline for the valuation bases to be employed. The prospective dimension of each asset and liability (the benefit dimension of assets and the sacrifice dimension of equities) should be described in terms of the valuation base that most adequately reflects the amount, timing, and uncertainty of the cash impact of the specific asset or liability.

The statement of financial activities (the funds statement) should describe the factual aspects of events having, or expected to have, a significant impact on the cash generating ability of a firm.

**Not-for-Profit Organizations**

The broad requirements of financial statement information outlined in this paper are equally applicable to not-for-profit organizations. Of course, cash generating ability is not the goal of not-for-profit organizations. Benefits for these entities are not properly definable in terms of cash flows. Nevertheless, they have goals, and there are decision-makers who must evaluate, estimate, compare, and control the goal attainment of such enterprises. Thus, financial statements for such concerns should deal with goal attainment by reporting on completed, incomplete, and contemplated cycles of goal achievement events.

Since the benefits for not-for-profit organizations are largely nonmonetary, while the sacrifices, to a large extent, are monetary, it may not be feasible to produce a dollar (bottom line) figure to describe the impact of completed cycles. It should, however, be possible to describe in nonmonetary terms the benefits realized by a concern’s operations and the sacrifices required to produce such benefits. The final reckoning and evaluation of the benefit-sacrifice relationship can properly be left to the user.

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4 This concept of realization is more fully explored in the paper, “The Partitioning Dilemma,” contained in this volume.
who should be provided with relevant information for making such a judg-
ment. It seems strange and somewhat illogical that financial statements of
not-for-profit organizations presently have a greater degree of cash orienta-
tion than those for profit-oriented concerns.

**Public Economic Decisions**

Governmental units operate in a variety of roles while attempting to
attain many different goals. In its role as the Department of Defense, for
example, the federal government must evaluate, estimate, compare, and
control significant amounts of cash receipts and disbursements. In its role
as the Securities and Exchange Commission, the federal government must
evaluate the information made available by firms for present and potential
investors in accordance with specified laws. The federal government also
has numerous other information needs when functioning as an employer,
investor, creditor, or regulator.

For some of those decisions the information detailed in the preceding
sections is adequate. Governmental fiscal policy involving tax regulation and
collection requires information on the cash generating ability of all firms
and estimates of resulting cash flows to the government. Such policy deci-
sions are served by the information previously identified.

Relevant information is also required for other governmental decisions.
Government has the means to require the format and content of information
it desires, while private sector users to a large extent do not have similar
means. Nevertheless, describing some dimensions of information require-
ments of public sector decisions seems useful.

The government must make economic decisions that consider the bene-
fits accruing to and the sacrifices extracted from society as a whole as
opposed to private sector decision-makers who consider only their individual
benefits and sacrifices.

In some situations, benefits are realized by people other than those
bearing the sacrifices, and sacrifices are extracted from people other than
those receiving the benefits. Equitable resolution of such situations requires
government action and cannot be left to economic decisions between private
individuals.

When the benefits or sacrifices received by some persons are not in
the best interests of society as a whole, laws are enacted to bring the private
benefits and sacrifices more in line with society’s goals. In order to determine
when legislation is needed, the government, acting on behalf of society as
a whole, needs information concerning the social costs and benefits resulting
from private economic decisions.

To the extent that social costs or social benefits will have an effect on
the cash generating ability of a firm, this information should be reported to
facilitate decision-making in the private sector. However, a company may
undertake activities which have social consequences that may not affect its
cash generating ability in a manner which is easily measurable. This infor-
mation may be essential for making decisions in the public sector. What, if any, role should financial statements play in providing this information?

The answer may be found in the distinction between interpretive and factual information. There is a need for information concerning a firm's activities which have social consequences. A firm may have a comparative advantage in supplying factual information about such events. A firm is in the best position to design its information system to communicate information with social impact such as the number of minority group employees hired or the amount of pollutants produced by its activities. In communicating this information, however, firms are not in a position to evaluate the social consequences of these activities or to measure the achievement of social goals in the aggregate.

As in the private sector, ultimate evaluation and judgment concerning the information should be left to the user—in this case, society and the government. Accordingly, the firm should communicate factual data in its financial statements concerning events having social consequences without attempting to evaluate such data in terms of its social significance.