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A Statement of Accounting Concepts for Level 1 of the Conceptual Framework?

The type of reporting found in corporate governance includes financial reporting, but over time various arguments have developed regarding a tension found between conventional and financial type reporting, especially as to the role of financial statements. Further tensions follow from the introduction of economic and social issues within both conventional accounting and financial reports.

This article argues that distinct, though related, frameworks at particular levels are required. The mingling of conventional accounting with financial and economic ideas and issues is evident in the conceptual framework (CF) project where there is reference to economic benefits and costs in making economic decisions for the allocation of resources. This results in a misconception of the function of these distinct types of information. An unravelling of particular issues will require a Statement of Accounting Concepts (SAC) for Level 1 of the CF.

Key words: Accounting, species; Concepts.

Work which began in the U.S.A. in the late 1960s was to culminate in the Financial Accounting Standards Board's 1976 Discussion Memorandum on a conceptual framework (CF) for financial accounting and reporting. Complementary work followed in Australia. A major catalyst for the CF project there was government intervention resulting from its impatience with the profession. Henderson and Peirson (1988, p. 163) state: 'In January 1984, after an extended period of criticism of the accounting profession for its apparent failure to produce and enforce accounting standards . . . the Ministerial Council for Companies and Securities established the Accounting Standards Review Board (ASRB). The ASRB . . . lists its powers as follows: (a) specify a conceptual framework . . .'

The ASRB was established following recommendations to the Ministerial Council by the then National Companies and Securities Commission (NCSC). The ASRB consisted of nine members—four from the profession, four from other constituencies and a chairman nominated by the Ministerial Council. There are parallels here with the U.S. institutional set-up of the Securities and Exchange Commission (SEC) and the FASB.

In February 1985, the ASRB issued Release 100 which set out criteria for the evaluation of proposed accounting standards and listed some tentative assumptions

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which proposed standards would have to satisfy. About the same time Sutcliffe (1985) included the diagram illustrated in the Appendix in which the 'building blocks' of the CF are shown by the different levels which make up the CF pyramid. Release 100, reissued by the ASRB in August 1990, incorporated a revised diagram and deleted the assumptions. The assumptions were effectively replaced by a number of SACs, the first of which were released at the same time as the reissued Release 100, including SACs 1–3. According to Release 100, SACs 'do not have the force of an approved Accounting Standard' but instead 'would be appropriate for preparers and auditors in endeavouring to satisfy their legal obligations'. Also, 'members of the profession have a professional obligation to apply Concepts Statements and Accounting Standards'.

The function of the ASRB was to approve standards submitted to it primarily by AARF, so giving those standards legislative backing. Consequently two sets of standards emerged, AARF's professional standards and the ASRB approved standards. The accounting profession called for a rationalization of the standard setting process, which occurred in 1988.

With the enactment of the Corporations Law in 1991 (Australian Securities Commission Act), the NCSC was replaced by the Australian Securities Commission (ASC; ASIC since 1998) and the ASRB was renamed the Australian Accounting Standards Board (AASB). While the players have new names, more resources and more elevated legal status, the functions remained effectively the same and the development of a CF is firmly entrenched as one of the powers and priorities of the AASB. Various works of the 1990s were built around that CF and some were certainly ground-breaking in the advance of non-cost methods for the measurement of particular assets and liabilities.

As illustrated in the Appendix, the CF is based on a hierarchy of levels or building blocks. The first (top) level is '1. Definition of Financial Reporting: General Purpose Financial Reports'. Given its importance for the whole structure, it seems intriguing that this has not been the subject of an SAC in its own right.

Perhaps the issuance of an SAC here would open the Pandora's box of accounting because of the demand for non-accounting information. That is, a problem arises if (as appears to be the case) the CF is intended to provide a basis for a measure of managerial performance. Increasingly, managerial performance is being measured against non-financial criteria. For instance, Henderson and Peirson (2000, p. 32) write of the difficulties of incorporating performance indicators in 'financial reporting', especially efficiency indicators which are non-financial (employee turnover) or partly financial ($ sales per employee). Another difficulty is how to incorporate future-oriented financial data which are commonly used as a means of gauging where managers are heading.

The trend is not new. More than twenty years ago, Burton (1981, p. 54) stated: 'One of the most significant changes in financial reporting is the steady erosion of the relative importance of financial statements. At one time, financial statements were the whole of financial reporting. Over the past decade, however, more financial reporting innovation has taken place outside the financial statements.'

This article argues that the basic level of the CF—Scope (Level 6)—needs an SAC to place the CF in context, explain its purpose and provide guidance to other conceptual levels. The argument should not be seen as a one-way type argument. Instead, interaction among the various levels of abstraction within the CF is required.

A research hypothesis/proposition guiding this article is that conventional accounting reports are unable to act as an instrument of control in corporate governance or to assist in decision making except by chance. For instance, Clarke *et al.* (1997, p. 122) have argued, 'More to the point, along with the privilege to make bad decisions, it is everybody's right to expect accounting to "tell it how it is", rather than mask the financial facts with the "jiggery-pokery" of the kind which conventional accounting passes off as sophisticated (though mysterious) financial representation . . . Conventional accounting . . . by [its] . . . very nature, provided a vehicle for public deception.'

This has been a longstanding debate. Ripley (1927) argued that financial statements are appropriate instruments of control and may be used to monitor performance. Debate with May (1936) followed. May argued that conventional accounting reports were 'largely the reflection of individual judgments, and that their value is therefore to a large extent dependent on the competence and honesty of the persons exercising the necessary judgment' (p. 115). However, both that and subsequent debate leave the relationship between financial 'reporting' and financial 'statements' not explicitly stated. For example, it might be hypothesized on the one hand that the CF should be concerned with financial statements only, or on another that selected key performance indicators, not necessarily of a monetary nature, should be included in the CF.

For this to be tested, the present intermingling of data of distinct types requires unravelling. Analysis of the term 'accounting' is not new. Chambers (1956, p. 584) wrote: 'The . . . use of the unqualified term *accounting* . . . may not be misleading to those who are preoccupied with business accounting. We have long been accustomed to the use of *accounting* in the limited sense of business accounting. But why? Accounting is a generic term; several species, each having distinctive features, are recognized even by the novice. Each of these species of accounting has its peculiar form because it serves its own specific purpose.'

The species to which Chambers refers represent accountings with a different focus, serving different areas of interest of a wide range of users. It is the mixing of those distinct areas of interest that has led to problems in accounting at both the conceptual and the technical levels. It is here argued that a variety of issues relating to accounting species result from the intermingling of data which may be classified as *conventional* but which are not *financial*. In turn, the latter may be classified as a subset of *economic* data which in turn may be further classified as a subset of *social* data. In this article 'social' is a catch-all-other category. Other researchers may subdivide the data further. In the water industry, Bogeholz (1999) found 'ecological' to be a key category. Frost (1999) would undoubtedly see 'environmental' as a distinct category.

These issues may be illustrated by reference to Level 2, ‘Objectives’ (see Appendix). There, information for both economic decision making and accountability is sought. The implication is that the data for both purposes can be derived from a common source. But do conventional accounts provide both sets of data? Are those sets of data compatible in the sense that they can both reside comfortably within one accounting system? The standard setters apparently think so because SAC 2 includes both, although the former has been expanded to include information for making and evaluating decisions on the allocation of scarce resources. The point here is that the proposition that specie of both data can be components of one accounting system has not been tested and is not even questioned.

MULTIDISCIPLINARY INFLUENCES

The type of reporting required for corporate governance includes financial reporting, but various arguments have emerged regarding a tension found between conventional and financial type reporting. Further tensions follow from the introduction of economic and social issues within the conventional or financial accounting reports.

For example, Henderson and Peirson (2000, p. 934) raise various dilemmas:

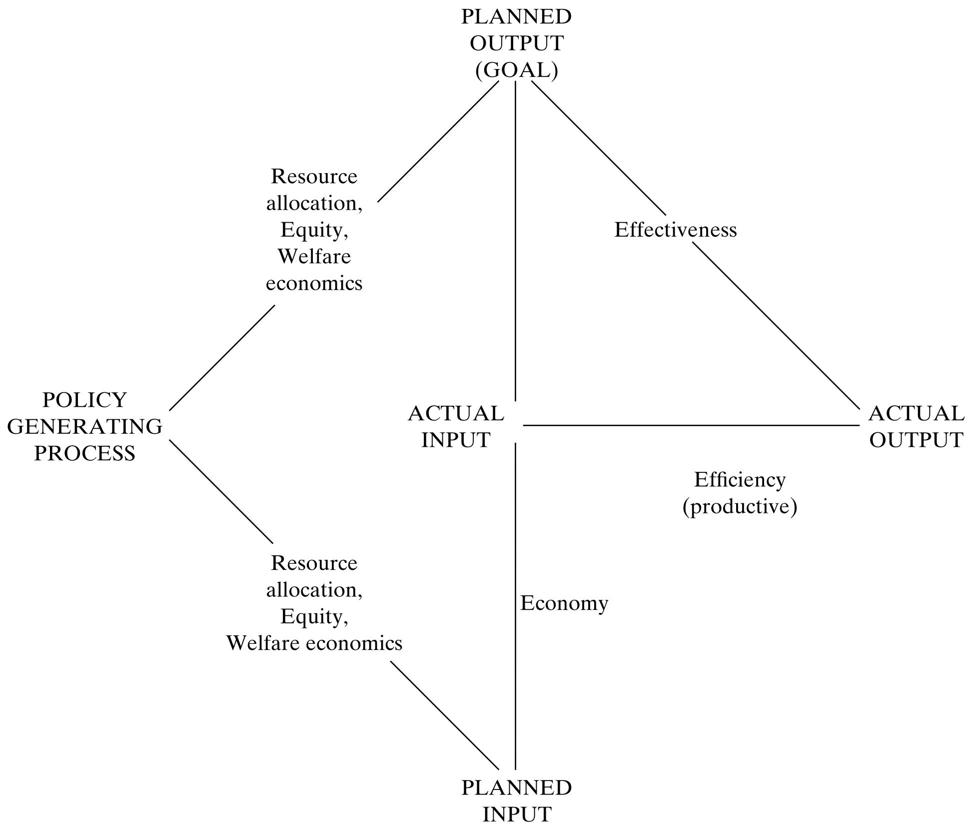
> Where there is a need for greater corporate social responsibility, there is a corresponding need for entities to account for and disclose their socially responsible activities and performances . . . the majority of disclosures have taken a narrative form, with the inclusion of some monetary and non-monetary data . . . Entities could also be required to specify the objectives of their socially responsible activities and the extent to which those activities and the costs incurred in implementing them have achieved the objectives. However, considerable research is needed to determine the feasibility of measuring in dollars the social costs and benefits of an entity’s socially responsible activities.[1]

Within this context, the modern industrial or service entity, either public or private, conducts its business in an accountable, rapidly changing and highly competitive environment. Interest in the development of public sector accounting, especially with regard to the issues of accountability and performance measurement, began in Australia in the late 1970s. A National Government Accountants Committee was established and various conventions held and papers of proceedings published (1983, 1987). Under Federal and State governments a climate of reform steadily developed following Royal Commissions and various investigations into public service efficiency (Wilenski, 1982). That climate of reform also provided an impetus for the Australian CF project (Sutcliffe, 1985).

The search for reform, driven by the public sector in the context of demands for greater effectiveness and efficiency, was easily reconciled with the decision-making thrust of the CF (Hagan and Staunton, 1989, p. 19). A hierarchy of indicators (measurements, ideally) were sought that logically connect strategic plans to workplace activities. (See, e.g., the series of reports introduced by N.S.W. Treasury, 1996.)

[1] Similar sentiments have appeared in various editions of Henderson and Pierson’s text. In earlier editions (e.g., 1988), however, reference is to ‘financial statements’ as the medium of communication.

FIGURE 1



The development of key performance indicators had to allow for performance being multi-faceted and not the province of narrow accounting numbers. Performance indicators may be grouped into those concerning equity/welfare economics/social issues, efficiency (both allocative and productive) and effectiveness. Reference is sometimes made to economy. Figure 1 shows how the above interrelate.

At the general policy-making level, issues involve the allocation of scarce resources among competing demands and questions of social equity among parties. Those issues are found in macro-economics and other social sciences. Here, some analysis and related data will certainly be qualitative and non-financial. One example would be the choice a government might have to make of new jet fighters for the armed forces, or new hospitals or new schools.

At the application or workplace level, allocative efficiency, from micro-economics, seeks the optimum combination of inputs (factors of production) for required ends. Productive efficiency, again from micro-economics, is also found in engineering

and other disciplines. While different disciplines have different definitions, productive efficiency basically deals with the optimum relationship between inputs and outputs. If inputs are given, maximum output is sought. If output is given, minimum inputs are sought. Effectiveness deals with the relationship between planned output and actual output. Economy deals with the relationship between planned input and actual input. For instance, management may be able to achieve a favourable variance for materials pricing or usage, but it may record an unfavourable variance for, say, labour hours.

Burton (1981, p. 55) observed: 'Related to the growth in supplemental information is the increasing emphasis on the future-oriented objectives of financial reporting. Over the past decade, there has been substantial movement toward articulating the importance of financial data in the predictive process and decreasing the emphasis on the stewardship role of statements.' Arguably, the link between financial reporting and financial statements has been lost or overtaken by developments in other disciplines.

THE TERM 'ACCOUNTING'

Obviously, 'accounting' has something to do with the concept of *accountability.* This concept has a lengthy history, as the biblical story of Adam and Eve suggests. However, the more relevant biblical story here is that of the talents. As may be recalled, a master has three servants. To one, he gives five talents, to another two and to the third, one. After a set period, the servants are called to account. The first and second, we are told, use their talents and return the five talents plus another five and two talents plus another two, respectively. The third, however, simply buries the talent, later digging it up and returning the single talent. The first two go on to bigger and better things. The other is, of course, criticized for not making better use of the resource.

From that anecdote, two ideas emerge: accountability for the original 'stake' and for the use made of that 'stake'. Thus an accounting would include the original position statement identifying the resources placed in the care of the servant, a subsequent statement of resources at the end of a given period of time, and from those two statements a change in position statement over that period is deduced—a performance statement. Depending on whether an accrual or a cash approach is taken, the performance statement will yield a measure of performance in terms of either of a profit/loss or of a cash surplus/deficit.

The modern situation, especially in the business environment, is obviously much more complex, but the fundamental ideas on accountability that emerge from the parable of the three servants remain central to any notion of accountability applied in today's world. We note, also, that the reasons for the added complexity of today's world are many and varied. However, the one which has been elaborated here is the progressive shift from the nineteenth-century idea of the stewardship of the directors being accountable to their shareholders only, to one in which other interest groups also seek an accounting of the managers'/directors' stewardship.

CONVENTIONAL ACCOUNTING

The accounting species that is now under attack has a long history. For example, Whitney (1940, p. 308) concluded:

> Traditional accounting procedures are sound, because accounts based on cost . . . comply with the equitable doctrines governing reports of fiduciaries . . .
>
> Balance-sheets prepared to traditional standards constitute part of the accounting corporation managements should render to shareholders for use and care of shareholders' funds. Although the courts have not classed corporate managements as fiduciaries, their responsibilities and duties to shareholders are actually fiduciary in character. The amounts shown opposite items of fixed assets on balance-sheets should be based on cost because they are accounts of expenditures.

Thus the traditional balance sheet may be useful in the stewardship role if it is limited, as Whitney suggested, to a record of expenditures. That is, it could simply incorporate 'cash in' and 'cash out' as well as legal debts of the entity.

To appreciate Whitney's 'traditional accounting', resort must be made to May's (1936) 'conventional accounting'. This phrase—as it literally suggests—leads to the inference that the reporting of one body to another follows developed and set conventions which are known to all players. This approach was promoted by May through his various committees, including those on cooperation with the New York Stock Exchange and the SEC during the turbulent times of the 1920s and 1930s. In accepting 'conventional accounting', investors and other stakeholders had to place a great deal of trust in the professional status of the accountant.

An input oriented process followed in which the calculation of *profit* for a reporting period was the key issue. This involved a series of steps. First, the amount of *revenue* for that period was recognized usually at the point of sale (in either a cash or credit transaction). Second, *expenses* for that period were recognized under a *matching* process in two ways. If an expense could be seen as *contributing* to the revenue as recognized, it was included in the calculation of profit. If an expense could be seen as applying to a particular *period*, it too was included. These rules were to lead to *deferred credits* and *deferred debits* being carried forward on the balance sheet at the end of that period as liabilities or assets and affected the calculation of profit in future periods. Exceptions included various mining, agricultural and construction ventures.

This input orientation underlying conventional accounting meant that May (1936, p. 117) could conclude:

> therefore the income account is usually far more important than the balance sheet. In point of fact, the changes in the balance sheets from year to year are usually more significant than the balance sheets themselves.
>
> The development of accounting conventions has, consciously or unconsciously, been in the main, based on an acceptance of this proposition. As a rule, the first objective has been to secure a proper charge or credit to the income account for the year, and in general the presumption has been that once this is achieved the residual amount of the expenditure or the receipt could properly find its place in the balance sheet at the close of the period.

This approach was adopted by the American Institute of Certified Public Accountants (AICPA, 1961):

> Since . . . 1941 . . . there has been marked progress toward greater logic and usefulness in what nevertheless still are referred to as balance-sheet presentations. It may be that at some future date the term balance sheet will cease to be used to designate a presentation of financial position and will instead be deemed to refer (as the term trial balance already refers) to a mere step, or point of arrival and departure, in preparing such a presentation. . . .
>
> [A] balance sheet is historically a summary of balances prepared from books of account kept by double-entry methods . . .
>
> In this view a balance sheet may be defined as: A tabular statement or summary of balances (debit and credit) carried forward after an actual or constructive closing of books of account kept according to principles of accounting.

Whitney (1940, p. 293) questioned the function of such a balance sheet: 'When an accountant is engaged in preparing a balance-sheet, according to the traditional procedures, is he attempting to prepare a statement of assets, liabilities, and net worth? If not, what is he doing? Can his objective be defined in words other than "certified balance-sheet"?' In discussion (pp. 294–5), he referred to 'a great deal of honest difference of opinion about the comparative merits of accounts based on cost and accounts based on appraisals'. He used Healy (1938) for the case for cost and MacNeal (1939) for non-cost based appraisals.

Whitney's (1940, p. 301) criticism of the May balance sheet was that 'misunderstanding will not be cleared up by the exertions of a committee of the New York Stock Exchange to attempt to "gradually" convince investors that balance-sheets are not what the form, date, and captions seem to indicate. Some more forceful method is required . . . Perhaps accountants must tell the public what balance-sheets are, instead of merely telling them what balance-sheets are not. Perhaps another title could be substituted for the meaningless, stilted phrase, "balance-sheet".' His solution (p. 308) was to introduce an additional statement expressing the 'independent expert opinion on the value of all of the corporate assets, liabilities, and net worth'. To him, a balance sheet under conventional accounting differed from a statement of financial position.

The APB (1970) expanded the AICPA position in an attempt to incorporate issues like Whitney's. The APB release reads (footnote references omitted):

> 133. The *financial position* of an enterprise at a particular time comprises its assets, liabilities, and owners' equity and the relationship among them, plus those contingencies, commitments, and other financial matters that pertain to the enterprise at that time and are required to be disclosed under generally accepted accounting principles. The financial position of an enterprise is presented in the *balance sheet* and in notes to the financial statements.

The term 'economic' was included in definitions of basic elements. For instance, '132 . . . *Liabilities*—economic obligations of an enterprise that are recognized and measured in conformity with generally accepted accounting principles. Liabilities also include certain deferred credits that are not obligations but that are recognized and measured in conformity with generally accepted accounting principles.'

It is against that background that the present situation may be considered. In Australia, SAC 2 (1990)—Block 3—uses terms and phrases that are in many ways similar to those used by the APB in 1970, but there are some important new notions, such as 'capacity to adapt' and 'solvency'. For example, SAC 2 defines financial position as the economic condition of a reporting entity, having regard to its control over resources, financial structure, capacity for adaptation and solvency. The primary financial measures of an entity's economic condition are reported in the statement of financial position, the elements of which are assets, liabilities and equity. The definitions of these elements in SAC 4—Blocks 5 and 6—again refer to economic ideas. Certainly ideas from financial and economic position are intermingled.

FINANCIAL REPORTING ISSUES

As mentioned earlier, for many years various writers have taken exception to the output of conventional accounting. Chambers (1966a, p. 252), writing of Grady (1965), concluded: 'It is demonstrable that the result of applying generally accepted accounting principles does not give financial position as it is understood by merchants or financiers in the market place, or even as it is understood by laymen'.

Chambers (1966a, p. 250) linked criticisms to the issue of stewardship:

> Now the relationships of managers 'to stockholders, creditors, government and others having bona fide interests' . . . can scarcely all be described as fiduciary relationships, without warping the meaning of fiduciary. None of these relationships is a fiduciary relationship in the customary sense. It is no doubt reasonable to say that directors and managers occupy positions of trust, in the sense that others trust them. But not in the sense that they are trustees . . .
>
> The object of these observations is not to clarify a simple verbal point. It is to strike at the root of what seems to be an error in conception. If the accountability of management is seen as a fiduciary accountability in the usual sense, it will lend support to the idea that management is accountable in respect of the sums of money 'entrusted' by equityholders, and a balance sheet showing aggregate outlays from such sums may be held to be justified; the initial costs of assets will be acceptable as balance sheet figures.

Indeed, as Whitney pointed out earlier, conventional accounting may meet this narrower idea of stewardship. In a broader interpretation, a different report was required. Chambers (1966b, p. 136) argued: 'If, and only if, all events and transactions, and only those events and transactions, which have a bearing on the financial position of an entity have been duly represented by entries in the accounting system, the balance sheet will represent the financial position of the entity as at the date for which it is drawn.' He would, however, limit the 'events and transactions' to be included quite dramatically, especially by excluding any *ex ante* economic as well as any social ones.

While the debate on the stewardship idea continued, at the same time there were developments in the role of accounting in decision making. Staubus (1977, p. 21) writes, 'In 1953, I submitted to the University of Chicago faculty a dissertation that explicitly adopted the decision-useful objective and used it as a basis for a conceptual structure (Staubus, 1954)'.

However, it would take some years to eventuate. Staubus (1977, pp. 24–5) discusses various statements, concluding:

> The turning point in the official and sponsored literature came in 1966. The AAA Committee to Prepare a Statement of Basic Accounting Theory bought the decision-usefulness approach lock, stock, and barrel. While it was not able to carry through as far as one might have hoped, the Committee's contribution to popularizing both the decision-usefulness objective and the standards to be used as criteria for evaluating potential accounting information (especially relevance, verifiability, and freedom from bias) was immense. One can only speculate about the extent to which the substantial dissatisfaction with accounting practices in the late 1960s and early 1970s would have been avoided if 'A Statement of Basic Accounting Theory' (ASOBAT) had been produced in 1957 (as it apparently could have been). It does seem clear, however, that in the mid-1970s it is playing a big role in the deliberations of accounting policy-making bodies, such as the FASB and SEC. Every sponsored study of fundamental ideas in accounting since 1966 has emphasized the decision-usefulness objective, and several have developed substantial structures of ideas on this basis.
>
> *APB Statement No. 4* (1970) was the first AICPA document to recognize the decision-usefulness objective. It also emphasized qualitative objectives . . . (pp. 35–38).

Staubus (1977, p. 23) also acknowledges Chambers' (1955, p. 25) early argument that the 'basic function of accounting' was 'the provision of information to be used in making rational decisions'. Chambers (1966b) later built into CoCoA a process of reasoned decision making by rational individuals (see especially Chapter 3, 'Ends and Means'). This was consistent with traditional economic theory, in which the end or goal of the individual was utility maximization. Thus the decision maker would systematically consider all available cases and act accordingly. Research (Kahneman and Smith, 2002) has found that this is not so in practice. In particular, some individuals were found to be risk averse, especially regarding losses. Some were also found to be more concerned with a change relative to a given level rather than an absolute amount. The role of accounting in decision making arguably required more analysis.

Debate persists at various levels. Kaufmann (2002, p. 75) argues:

> Australian governments have two components to their financial reporting, government finance statistics (GFS) and Australian generally accepted accounting principles (AGAAP) . . .
>
> GFS is a system of measurement and disclosure providing data to help statistical economic analysis. It is developed and promulgated by the IMF and is harmonized with the system of national accounts. Australia's national accounts are prepared by the Australian Bureau of Statistics (ABS), which adopted accrual GFS from 1998–99. Last December the IMF formally released its accrual GFS framework for application by member countries.

It is clear that the development of a suitable set of GFS is made more complex by incorporating (intermingling?) issues from distinct disciplines (accounting, economics, statistics and social issues). A fascinating example of one of the more ridiculous outcomes is provided by Barton (2003).

One answer is to narrow the context. Gole (1976, p. 78) argued: 'The emphasis appears to be on the non-essential, rather than the essential . . . It may be far better

to restrict the extent of disclosure . . . and sharpen the more important things.' For example, if financial position was restricted to past or current market exit prices, with other *ex ante* prices and calculations appearing in a statement of economic [or social] position, the current debate might be better structured and eventually resolved.

Consider some specific examples: If a non-monetary asset has no market exit price, it would be recognized in a statement of financial position at zero but appear at an *ex ante* figure on the economic statement. In this context, definitions and the criteria for the recognition of monetary assets or liabilities may require review. While it is intuitively appealing to regard all financial (and probably derivative) instruments as monetary, intriguing questions arise, such as whether it is possible to have a non-monetary liability.

ECONOMIC REPORTING ISSUES

Of concern here is the development of a statement of economic position and a related performance statement. To be consistent with notions from the discipline of economics, different definitions of key terms may be necessary. For example, terms such as *resources* (rather than *assets*) and *obligations* (rather than *liabilities*) might be used.

This proposal might not be as radical as it may appear. In the context of 'national accounting', many ideas from conventional/financial accounting have already been long adopted within a specialized specie of accounting. Yanovsky (1965, p. 9) points out:

> Viewing the various groups of transactors or sections of an economy as subsidiaries of the whole national economy, and the whole economy as the central accounting unit, enabled economic statisticians to adapt the business accounting system as an accounting framework for national economic activity. Such adaptation, they realized, could conveniently be applied to present a systematic measurement of national income, of expenditure on the national product, and of accumulation of national wealth and other economic flow aggregates. It could be used to demonstrate the interrelationships between these flows and aggregates. It could in fact also be adapted for the presentation of statements of wealth or national balance sheets.

It must be appreciated that some authors, including Yanovsky and Downing (1965), equate economic with social reporting. Other authors (e.g., McTaggart *et al.*, 1999, pp. 25, 25) differentiate between social and economic issues.

Yanovsky (1965, pp. 7–13) traces the origins of systems to produce reports about economic and financial activities of a nation. He highlights (pp. 8–9) the role of existing accounting systems for the private trade and business entities, referring to 'three most important principles of this private business accounting system, in their impact upon the national accounts system'. The first is the ability to regard anyone or any organization as a bookkeeping unit. The second is the existence of two types of transactions: one of flow (which he points out may be actual or imputed—a measurement issue), the other of changes in the status or composition. The third is of the inter-relationship between these two types.

It is clear that, provided the data are available and accounting concepts are used sensibly, national accounting reports consistent with those of a firm are possible. The unit of account, the concept of transactions and interrelationships between stocks and flows lead to statements on status (or position) and changes (or performance). But concepts such as 'imputation' may provide a key differentiation from conventional private-sector financial statements. For instance, imputation values of barter transactions or of specialized resources like pipeline networks are well understood in economic decision making but would be difficult to substantiate within a conventional accounting framework.

Consideration might also be given to the use of measurement techniques other than monetary ones. The Australian Bureau of Statistics (2002) provides data for measuring Australia's progress. Fifteen indicators are used to report the present position of and change over time in general wellbeing. Four of the indicators are of an economic nature. The first economic indicator is of real disposable income per person and is derived from GDP (gross domestic product). The second is real net wealth (assets less liabilities) per person. The third concerns unemployment. The fourth concerns the gap between rich and poor.

Non-financial data included here would, like financial data, be useful in decision making and accountability as proposed in the CF. Thus if issues of employment/unemployment were of concern, a structured report might include non-monetary indicators as well as imputed values of related effects on other issues/policies like education or immigration levels.

SOCIAL REPORTING ISSUES

Social reporting encompasses matters at the widest level. Yanovsky (1965, p. 1) shows that inter-relationships between economic and financial issues also overlap with social issues:

> The two world wars . . . and the social and political revolutions which followed them, have given great impetus to the study and analysis of macroeconomic problems. Confronted with acute economic and financial difficulties of international scale and character, the people and their respective governments have encouraged economists to examine the economic and financial activities of the different sectors in an economy from the point of view of the nation as a whole.

Debates are found which tend to be unresolvable as the parties argue at different levels. Consider the following scenario, based on an actual case. An opportunity shop, part of a larger charity group, has a favourable location in a well-established, wealthy suburb. It is staffed by volunteers and is seen by the not-so-young as a place to call in to have a cup of tea and a chat. The shop financially breaks even, due in large part to the lack of salary costs. However, head office looks at the economic situation, and decides that the shop should be closed as the resources would produce a higher return (both financially and economically) by moving to another location and selling or leasing the present location. The locals, both volunteers and users, argue that the net social benefits are so positive that the shop should be retained.

There is of course no simple answer to this dilemma. What is required is a framework within which issues can be rationally debated towards a considered conclusion. In terms of Figure 1, the two views are irreconcilable, and so it becomes a political question—which party has the greater power? These are decision making and accountability at their broadest.

Swift *et al.* (2001, p. 10), in a research study in the U.K., argued that the trend towards social reports suggests a change in attitudes from a predominantly managerial emphasis to one of collaboration with other stakeholders regarding social issues.

Various stakeholders are becoming increasingly aware of concepts like 'sustainable development' in environmental and social reporting contexts. The Global Reporting Initiative (GRI) was established in 1997 under the collaboration of the Coalition for Environmentally Responsible Economies and the United Nations Environment Program (www.globalreporting.org; other sites include www.hpmg.com and www.reputationmeasurement.au). The GRI is a long-term, multiple stakeholder, international undertaking with a mission to develop a framework for the reporting of information not presently found in conventional financial reports of corporations.

This would see the promotion and dissemination of voluntary guidelines for corporations to report on the sustainability of the economic, environmental and social dimensions of their activities, products and services (www.globalreporting.org). GRI reporting was to complement conventional accounting reporting by providing nonfinancial information for users in their assessment of performance of corporations.

Draft guidelines were issued in 1999. After pilot testing, comments from interested parties and revision, the guidelines were released in 2000. A further update was released in 2002. The guidelines recommend reporting in five sections: vision and strategy; profile; governance structure and management systems; GRI content index; and performance indicators.

In a similar way, as described in the previous section, the Australian Bureau of Statistics (2002) reports the present position of and changes over time in general wellbeing. Included are five indicators of a social nature and six of environmental issues. The first of the social indicators concerns education and training, the second life expectancy, the third issues regarding housing, the fourth crime and the fifth 'social attachments'. The first of the environmental indicators concerns the numbers of extinct or endangered bird or mammal species, the second land clearance, the third land degradation, the fourth inland water, the fifth greenhouse gas emissions and the sixth air quality.

Gittins (2002) commented:

> That document . . . gets about as close as any statistician gets to the meaning of life. It's a kind of national stocktaking, allowing us to answer the question of whether life in our country has been getting better or worse, particularly over the past decade.
>
> It's the bureau's considered response to the common (but well-founded) criticism that the incessantly quoted gross domestic product is too narrow and misleading as a measure of the change in our wellbeing . . .
>
> Now, the one thing the bureau doesn't attempt is to add up these 15 indicators to offer a judgment on whether, overall, we're making progress or going backwards.

One hopes no accountants would try to make the addition either, but again data included here would, like the financial and economic, be useful in decision making and accountability as proposed in the CF. For instance, the Australian Conservation Foundation produces a 'Perception Report' on the environmental performance of Australia's top 100 companies. (www.acfound). This is nicknamed the 'Good Reputation Index'. A similar report has been launched called RepuTex Ratings System (Hewson, 2003, p. 70).

Economic or social position and performance statements are no longer radical suggestions and need to be reconciled with the issues met in the CF project.

SUMMARY AND IMPLICATIONS

The CF has still to deal with dilemmas caused by a failure to define financial reporting succinctly. It mixes ideas from different disciplines and must fully deal with the idea of accountability. This is summarized in Figure 2.

The left-hand column covers descriptions of issues which over time seem to be the major role to be played by accounting at both conceptual and technical levels. However, an unravelling of particular data of a different type will be required.

Ensuring that accounting will satisfy the needs of all stakeholders in a firm will require definitions of effectiveness and efficiency that can be employed and applied to all inputs and outputs—*conventional*, *financial*, *economic* and *social*. For example, as noted earlier, 'effectiveness' being defined as the meeting of set goals, the goals would be set and disclosed across the whole range of conventional, financial, economic and social reports. What is important is that all definitions are consistently applied if issues of reporting are to be resolved.

In the context of policy development, Argy (1995, p. 18) writes of the consequences of failure to unravel different types of data:

> However, what . . . others failed to foresee fully was that deregulation would increase enormously the role and influence of *financial* markets in *social* and *economic* policy; that this would impose a major constraint on the ability of governments to implement (through tax and transfer policies) the community's preferred set of *social* priorities, and that it

Figure 2

Issue	Data			
	Conventional	Financial	Economic	Social
Accountability and stewardship				
Narrow	Perhaps	Yes	Perhaps	Perhaps
Broader	By chance	Yes	Perhaps	Perhaps
Decision making and multidisciplinary issues				
Effectiveness	By chance	Yes	Yes	Yes
Efficiency	By chance	Yes	Yes	Perhaps

> would create a strong policy bias in favour of low inflation and 'small government', with corresponding aversion to low unemployment and government spending on welfare, health, education, labour market programs for disadvantaged workers and *social* infrastructure. (emphasis added)

This type of reporting certainly includes financial reporting, but various arguments persist regarding a tension between conventional and financial type reporting. Further tensions follow from introduction of economic and social issues within both conventional accounting and financial reports.

The CF clearly envisages a broadening of the concept of 'accountability' into the public sector and into non-conventional areas where issues such as those explored above come into play. This may have some unforeseen consequences on the CF project and makes Burton's (1981, p. 55) hope all the more pointed: 'when finally completed, [the CF] will help . . . sort out the issues and provide a matrix of sorts in which its decision-making process can be set. To date, the board's determination to seek consensus and to avoid threatening its various constituencies has led it to defer some of the hard decisions.' Is one of those hard decisions the definition of financial reporting and the related role of financial statements?

SPECIFIC RECOMMENDATIONS

The CF cannot be effective until key components are defined. In particular, the specific role of financial reporting must be defined in Level 1. This has to be consistent with work done to date on other levels within the CF. If we take the objectives of the CF as given, the steps proposed here are:

1. Unravel the present mixture of distinct areas of the firm's activities into conventional, financial, economic and social;
2. Refine the definitions and recognition of elements, measurement and presentation throughout the different levels of the CF to ensure consistency;
3. Narrow 'financial' to the reporting measures of financial resources currently available for adaptive behaviour; and
4. Assist in the development of CFs for economic and social reporting to ensure consistency with the financial CF.

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APPENDIX

THE AUSTRALIAN ACCOUNTING RESEARCH FOUNDATION