Influence of accounting theory on the objective of general purpose financial reporting

Influência da teoria da contabilidade no objetivo do relatório financeiro de finalidade geral

Influencia de la teoría contable en del objetivo del informe financiero con propósito general

Abstract

This study analyzes the influence of accounting theory on the objective of general purpose financial reporting. Historical research was carried out based on the primary works produced by the main researchers of accounting theory in the United States of America (USA) and the United Kingdom (UK). Regarding the objective, the 1989 conceptual framework was more influential in the United Kingdom’s accounting theory. In turn, the conceptual frameworks of 2010 and 2018 followed the approach of the USA, highlighting investors and creditors as the main users at the expense of the others. In general, it is possible to infer that the conceptual framework closely follows accounting theory, especially the productions of researchers in accounting theory in the USA and the United Kingdom, possibly due to the influence of researchers in the creation of entities, such as AAA, AICPA, and ICAEW, and of the last in IASB policies.

Keywords: Accounting theory; Conceptual framework for financial reporting; Objective of general purpose financial reporting

Resumo

Este estudo analisa a influência da teoria da contabilidade no objetivo do relatório financeiro de finalidade geral. Uma pesquisa histórica foi realizada a partir das obras primárias produzidas pelos principais pesquisadores da teoria da contabilidade dos Estados Unidos da América (EUA) e do Reino Unido (RU). No tocante ao objetivo, a estrutura conceitual de 1989 recebeu maior influência da teoria da contabilidade do Reino Unido. Por sua vez, as estruturas conceituais de 2010 e de 2018 seguiram a abordagem dos EUA, destacando os investidores e credores como principais usuários em detrimento dos demais. Em linhas gerais, é possível inferir que a estrutura conceitual segue de perto a teoria da contabilidade, sobretudo as produções dos pesquisadores em teoria da contabilidade dos EUA e do Reino Unido, possivelmente em virtude da influência dos pesquisadores na criação das entidades, como AAA, AICPA e ICAEW, e destas nas políticas do IASB.

Palavras-chave: Teoria da contabilidade; Estrutura conceitual para relatórios financeiros; Objetivo do relatório financeiro de finalidade geral

Resumen

Este estudio analiza la influencia de la teoría contable en el objetivo de la información financiera con propósito general. Se realizó una encuesta histórica basada en trabajos primarios producidos por
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1 Introduction

The Accounting Theory had its ancestry from the 1920s in the United States of America (USA) due to the strong growth of the capital market and, above all, the pressure of the Securities and Exchange Commission (SEC), created in 1934, on the accounting class due to the need to produce a theoretical framework that would support the preparation of financial reports (FR) useful to users, especially investors (Jones, 2015; Zeff, 1972, 1999). From the 1930s, monographs, theses, and pronouncements were produced by researchers from the American Accounting Association (AAA) and by accounting practices of the American Institute of Certified Public Accountants (AICPA) — since one of the characteristics of the North American school of accounting were productions together with the class entities, whether they were commissioned or not -, among which the thesis of William A. Patton and Ananias C. Littleton (1940) and A statement of basic accounting theory (1966) are highlighted. Patton and Littleton's thesis influenced a generation of accountants and especially the theory of accounting in Britain, with the production of the first British book with the term accounting theory in its title, authored by practical accountant Harry Norris (Jones, 2015).

The AAA and AICPA productions highlighted the principles, concepts, and objectives of accounting and FR, which represent the essence of accounting theory since it focuses on the set of underlying and presumed fundamental principles for accounting practice (Hendriksen & Van Breda, 1999), whose basic objective is to have a well-defined body of knowledge, which has been systematically accumulated, organized, and verified enough to provide a frame of reference for future actions (Schroeder, Clark & Cathey, 2005).

From the 1970s, with the creation of the regulatory bodies, especially the Financial Accounting Standards Board (FASB) and the International Accounting Standards Committee (IASC), productions focused on accounting standards developed to support the recognition, measurement, and evidence of accounting practices, having a conceptual framework (CF) as a reference, especially in countries that have a principles-based accounting system as support. The starting point for the CF is the definition of the purpose of financial information from which all other parts of the conceptual framework should derive, such as qualitative characteristics, definitions of elements, and concepts of recognition, measurement, and evidence (Pelger, 2016).

The development of decision-usefulness, proposed by George Staubus, professor of accounting at the University of California, Berkeley, enabled the emphasis of accounting on its objectives in his thesis in 1954, An accounting concept of revenue, at the University of Chicago, and in later journal articles The Accounting Review (1958, 1959), consolidated in 1961 in the book Theory of accounting to investors (Jones, 2015; Zeff, 2013). In this context, the proposition of the objective of the FR in the CF is the result of the search for accounting principles in the USA. It reflects the thinking of the International Accounting Standards Board (IASB) and the participants in its normative process, not necessarily supporting accounting theory.

The concepts proposed by the main authors of the accounting theory in the USA, such as William A. Paton, Ananias C. Littleton, Thomas Henry Sanders, Henry Hand Hatfield, Underhill Moore, Robert T. Sprouse, Maurice Moonitz, under the aegis of AAA and AICPA, were influenced by the socio-economic and political context and, in turn, influenced the definitions of the objective of the FR proposed in the CF. Since accounting should be understood in the context in which it operates, as a local phenomenon in space and time (Carnegie & Napier, 1996), the proposition of the objective of the FR influenced other factors in addition to accounting theory, such as the normative bodies and the socio-economic and political context.

The objective of the FR has been improved over the years in the attempt of the accounting class to provide a theoretical framework capable of supporting the issuance of FR that would show useful information to users, especially investors, due to environmental factors and pressure for better quality information. The authors, influenced by the environment in which they were involved, sought solutions for accounting practice, mainly for the lack of comparability and uniformity of information. Given this scenario, this research aims to analyze the influence of accounting theory on the objective of the general purpose of FR proposed in the IASB CF.

According to Statement on Accounting Theory and Theory Acceptance (SATTA), no single...
accounting theory is rich enough to effectively cover the full range of user environment specifications (AAA, 1977). Therefore, several accounting theories (AAA, 1977) have emerged from different approaches (Riahi-Belkaoui, 2004). However, two approaches are considered for this research, from the USA and the United Kingdom, due to their possible influence on accounting throughout the twentieth century and the socio-economic and political context. In general, this research does not seek to delimit the accounting theory but considers that the highlighted productions are part of it.

This study is justified for two main reasons. First, the research that investigated the Conceptual framework for financial reporting can be classified into three groups: (i) historical evolution of accounting principles that culminated in the issuance of FASB and IASB CF; (ii) implications for accounting practice, arising from the CF relationship versus accounting standards; and (iii) discussion on the main points of the CF, especially the IASB and the proposed revision of the CF (Discussion paper and exposure draft). However, there is a gap regarding the productions related to the accounting theory and its implications on the productions of the regulators. Thus, this research highlights the possible contributions to the objective of FR. Second, the emphasis that has been given to CF by the IASB and other users is evident due to the promotion of the accounting standard based on principles and not rules. Given that the changes made by the IASB (2018) are recent, this research adds the influence of accounting theory on CF, especially regarding the objective of FR to the existing framework, in an interpretive line.

This research is characterized as historical, with a rereading of documents under the perspective of the new history of accounting, to provide a reflective basis on the relationship between accounting and the socio-economic and political system in which it is embedded, thus demonstrating that not only do men make history but history also makes men and modifies their destiny (Funnel, 1996; Loft, 1986). The researchers outlined under the perspective of the traditional history of accounting are centered on the facts (documents/productions) and seek to understand accounting in the light of the facts of the time, trying to discover why the authors believed in what they did, seeking a faithful interpretation of their experiences without interpreting the changes that occurred based on the socio-economic and political context (Funnel, 1996). Unlike the traditional history of accounting, the new history of accounting requires the study of accounting in the contexts of action, seeking to understand accounting as a social practice (Gomes, 2008).

The publications analyzed show the evolution of accounting theory in the USA according to the approach of leading thinkers, starting in the 1920s. We used the primary works produced by the main thinkers of the North American school, separately or in conjunction with the class entities, and relevant works produced under the tutelage of these entities, which represent the idea of some of these thinkers, such as in A Statement of Basic Accounting Theory (ASOBAT). Based on these works, we sought to understand how the concepts evolved and influenced, or not, the construction of the CF. They were selected based on Hendriksen and Van Breda (1999), Jones (2015), and Zeff (1972, 1999) and confirmed in Chatfield and Vangermeersch (1996), referring to authors considered fundamental for the development of accounting theory or frequently cited according to the meaning of the publication.

2 Evolution of Financial Reporting Objectives in CF

The first statement of purpose for CF was made by the FASB (1978), which highlighted that a CF is a constitution, a coherent set of interrelated objectives and foundations that can lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and accounting statements. Thus, the objectives identify the goals and purposes of accounting and the foundations are the underlying concepts that guide the selection of events to be accounted for, the measurement of these events, and the means of summarizing them and communicating them to the interested parties.

Initially, the FASB issued six Statements of Financial Accounting Concepts, known as Concepts Statements of which two (nº 4 and nº 6) represented adaptations for non-corporate entities. In Conceptual Statement 2, the FASB (1980, p. 7) declared that the SFACs "[...] are intended to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards".

In the first discussions on the conceptual framework of accounting, the FASB sought guidance in some previous works, especially in the Trueblood report, based on ASOBAT and APB 4. As for the basic purpose of the financial statements, the justification was that it should provide useful information for making economic decisions, emphasizing investors and creditors, considered the main users of the financial information provided by the financial statements (FASB, 1978). Accordingly, FASB (1978, p. 13) highlighted a diversity of users in SFAC 1:

Among the potential users are owners, lenders, suppliers, potential investors and creditors, employees, management, directors, customers, financial analysts and advisors, brokers, underwriters, stock exchanges, lawyers, economists, taxing authorities, regulatory authorities, legislators, financial press and reporting agencies, labor unions, trade associations, business researchers, teachers and students, and the public.

In SFAC 1, aligned with all FASB standards, which are rule-based (rich in detail), the characteristics of the previously alluded users stand out. According to FASB (1978), the purpose of financial information
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goes from the most general to the most specific. The objective begins with a broad focus on information that is useful in investment and credit decisions, restricts this focus to the main interest of investors and creditors, and finally focuses on information about the economic resources of a company, the claims of these resources, and their changes, including measures of company performance, which are useful for assessing cash flow prospects.

This approach does not mean that the objectives apply only to investors and creditors and exclude all others. On the contrary, information that meets the objectives should be useful to all those interested in a company's future ability to pay or how investors or creditors are faring (FASB, 1978). In a way, FASB followed the emphasis of Trueblood's report when it stressed that FR's should provide information to assist investors and creditors, current and potential, and other users in assessing the amounts, timing, and uncertainty of future cash receipts. It is noted that the historical evolution of which regulation was part and the productions of Staubus (1954, 1961), ASOBAT (1966), and others, converge towards investors and creditors.

Another highlight is FASB's preference for the broader term, FR, to the narrower term, accounting statements, used in Trueblood's report. The IASC introduced the term FR in several points in the first CF, issued in 1989, such as when it stressed that "Financial statements form part of the process of financial reporting (IASC, 1989, p. 5), but referred to the financial statements when concerning the objective. The IASC stressed that "The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions" (IASC, 1989, p. 6). The IASC (1989) showed that the accounting statements prepared for this purpose meet the common needs of most users. Following the strong British emphasis of accounting theory aimed at stewardship, the CF stated that the accounting statements also show the results of management efficiency in the company's management or the liability of management for the resources entrusted to it.

Despite the influence of entities linked to US accounting, it is possible to infer greater influence of the British in the choice of users listed in the CF in the work of the IASC regarding the users proposed in the objectives of the FR. Unlike the emphasis given to investors and creditors to the detriment of other users, US accounting theory researchers highlighted a wide range of users who would be treated equally. This approach resembles that proposed by most researchers and authors of accounting theory in the UK.

Thus, users of the financial statements include current and potential investors, employees, creditors, suppliers and other commercial creditors, clients, governments and their agencies, and the public (IASC, 1989). The IASC also highlighted the different information needs of these user groups, such as investors and employees. If, on the one hand, investors require information to help them determine whether to buy, hold, or sell, on the other hand, employees are interested in information about the stability and profitability of their employers.

In 2002, the IASB and FASB agreed to work together to converge their FR standards (FASB, 2002). In a joint meeting in October 2004, the committees officially put the CF project on their convergence agenda (IASB, 2004). They decided to conduct the review in a multiphase project and stated that converging objectives should be addressed at the beginning of the concept project. In February 2005, the councils established that the objectives and qualitative characteristics should be part of the first phase (FASB, 2005).

As evidenced by Pelger (2016), Donald M. Young, a former FASB member (2005-2008), was strongly in favor of a separate objective of stewardship. However, the other members of the council did not share his opinion. Instead, they followed the majority's recommendation and confirmed that stewardship should not be declared as a separate objective. The majority opinion of the council members was that separate objectives for the FR relating to decision usefulness and stewardship would not add anything substantially. In 2010, the CF was issued with three chapters, one of them being the objectives of the FR.

As evidenced in the Basis for Conclusion, in identifying the purpose of FR in 2010, the IASB considered whether the main user group should be restricted to existing shareholders or expanded to include other users. The respondents to the proposal evidenced in the Discussion paper raised no issues beyond those considered by the IASB when Chapter 1 was originally developed. Furthermore, focusing on the information needs of core users does not prevent an entity from including additional information that is more useful to a specific group of users (IASB, 2015). In general, the purpose of the FR is to provide information about the reporting entity that is useful to existing and potential investors, loan lenders, and other creditors when deciding to provide resources to the entity (IASB, 2010).

In Basis for Conclusions Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information, both the FASB and the IASB discuss the purpose of the FR in terms of useful information for a wide range of users in making economic decisions, even when only demonstrating investors and creditors in the objective. They list investors, creditors, suppliers, employees, customers, the government and its agencies and regulatory bodies, and the general public as potential users of the FR. The Boards decided to focus on a large group of users, as it is more consistent with providing useful information to resource allocation decisions by investors, creditors, and other users than a narrower focus on existing common shareholders (FASB, 2006; IASB, 2008).
Due to the criticism received by the IASB, the discussion was resumed at CF 2010 and the stewardship returned at CF 2018, in addition to explanations in the bases for conclusions about CF, what stewardship means, and how it relates to the term accountability. The council decided to incorporate this into the Basis for Conclusions on the Conceptual Framework for Financial Reporting 2018 and at CF 2018, increasing the prominence of stewardship within the scope of the FR objective. It is confirmed that the IASB had not abandoned the prospect of providing information for evaluation of management efficiency in the company's management. Such an approach would be included in the general objective in the purpose of the financial statements.

The 2018 CF presents the objective of the FR as "[...] provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity" (IASB, 2018, p. 8). The objective of the financial statements is presented by the IASB (2018, p. 22) as a derivative of the objective of the FR:

The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income, and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management's stewardship of the entity's economic resources.

In general, it is highlighted that the emphasis of the FR, as proposed in the 2010 and 2018 versions of the CF, is the provision of information to investors and creditors to meet the needs of the majority (decision usefulness). Thus, Staubus (1961) and Asobat (1966) proposal is followed, the fruit of the historical process, especially of the socio-economic and political context in which the accounting theory was inserted in the USA. The election of users had its roots mainly in the regulation that occurred from the 1920s, in the same way as the expansion of the capital market from the end of the nineteenth century, influencing researchers, such as Paton, Littleton, Sander, Hatfield, and Staubus, in the search for uniformity and comparability of the information evidenced in the FR.

3 Objectives of the FR Before the Decision Usefulness Approach

The late nineteenth and early twentieth centuries were significant for the international economy, especially for the USA and Great Britain, bringing significant changes to accounting, which resulted in the development of the accounting theory in those countries. Among the most relevant factors are the Industrial Revolution, regulation, the development of the banking sector, the development and expansion of the capital market, World War I, and the collapse of the New York Stock Exchange (NYSE). Since the development of accounting is linked to the development of trade and vice versa, the development of the accounting theory and accounting objectives is closely related to the socio-economic and political context, so environmental changes have provoked the evolution of both.

The regulation had its advent with rail companies in the US. The development of railways began in the 1830s and had its peak in the 1840s and 1870s in Britain and from 1878 to 1893 in the USA. The US Congress created the first federal regulatory body in 1887, the Interstate Commerce Commission (ICC), with specific authority to regulate railways since managers paid huge dividends even at the initial stage of ventures, leading investors to pay high prices for shares in the belief that these dividends were indicative of the company's future profits and only later to discover that the huge dividends could not be maintained without jeopardizing the company's future operations (Markham, 2002).

The capital market, in turn, grew exponentially from the beginning of the twentieth century. The average daily trading volume on the NYSE grew from 1,500 shares in 1861 to over 500,000 shares in 1900, and the annual trading volume increased from less than 80 million shares in 1897 to over 265 million in 1901 (Markham, 2002). Investment funds were encouraged as a form for small investors to diversify their holdings. This medium provided investors with the opportunity to invest small amounts in various securities, diversified according to the company, geographical location, and type of security. Investment funds provided the means by which many investors could gain access to the securities markets. Approximately 140 funds were formed between 1921 and 1926 (Markham, 2002).

As the capital market developed along with the volume of trades, there was a need for improvements and evolution of FR, especially the creation of a theoretical framework that would support accounting in the preparation of FR, prioritizing the quality and usefulness of the information provided by them. Therefore, the evolution of the accounting theory towards the creation of a theoretical framework for accounting was necessary, and it came with the published productions of the US accounting researchers, precursors of the search for accounting principles.

The initial basis for the development of accounting principles lies in the thesis of William Andrew Paton, entitled Accounting theory: with special reference to the corporate enterprise, which was part of the book Accounting theory, published in 1922 (Wolk, Dodd & Teaney, 2004). Paton (1922) presented a reaffirmation of the accounting theory and six postulates: (i) existence of the corporate entity; (ii) continuity of the entity; (iii) balance sheet equation; (iv) monetary postulate; (v) cost and book value; and (vi) recognition of revenues. At that time, there was no emphasis on accounting or FR users. The FR and accounting
The utilization of the economic resources of the enterprise to produce goods and services is a fundamental concept in business management. Financial statements, such as the balance sheet, income statement, and cash flow statement, are crucial tools for conveying the financial health and performance of a business enterprise. These statements are not just passive records of past events but active tools that influence decision-making processes among various stakeholders.

In the context of accounting theory, the objectives of financial reporting have evolved significantly over time. The historical development of accounting principles has been shaped by regulatory changes and the needs of investors, creditors, and other stakeholders. The Securities Act of 1933 and the Securities Exchange Act of 1934 have been pivotal in setting standards for financial reporting. The creation of the Securities and Exchange Commission (SEC) in 1934 contributed to a more transparent and uniform approach to financial reporting.

The SEC's regulations emphasized the protection of investors and creditors, thereby influencing the reporting practices in the United States. The SEC's attention to investor protection resulted in the development of accounting standards that aimed to provide information reasonably sufficient to base an investment decision. This effort to align accounting practices with regulatory standards has been a continuous process, with the SEC's influence extending beyond the United States to other countries as well.

In the 1930s, the AAA executive committee, led by Kohler, Paton, and Littleton, published "A tentative statement of accounting principles affecting corporate reports" in 1936. This document served as a guide for the SEC in the development of accounting principles. Additionally, the publication of "The corporation's most important accounting responsibility, in other words, does not run to one or more owner-operators for each enterprise, but rather to one or more groups or classes of detached investors, creditors, and the government." (AAA, 1936, p.188).

The need for better accounting practices was evident, and the SEC's publication highlighted that "the purpose of the statements is the expression, in financial terms, of the utilization of the economic resources of the enterprise and the resultant changes in and position of the interests of creditors and investors." (AAA, 1936, p.188).

Approximately two years after the creation of the SEC, the regulation arising from the pressures on the capital market had already influenced the accounting class, including two of the main thinkers, if not the main ones, of the North American school, William Paton and Ananias Charles Litteton. The AAA publication was a precursor concerning the prominence of investors and creditors, although the objectives did not occupy a prominent place in accounting. According to Zeff (1999), the Haskins & Sells Foundation also influenced the SEC's thinking on best accounting practices. The foundation invited Thomas Henry Sanders, Henry Rand Hatfield, and Underhill Moore to prepare a monograph entitled "A statement of accounting principles," published by the American Institute of Accountants (AIA) in 1938. Sanders, Hatfield, and Moore (1938) highlighted user groups, among which they singled out investors and creditors.

Sanders et al. (1938) reported that the functions of accounting are: (i) making a record of the history, duly classified, of all the company's transactions; (ii) from time to time, making the necessary calculations and estimates to determine the financial condition of the company's revenues; and (iii) making the historical records of the calculations and estimates, periodically elaborate the FR that show the most important aspects of the share capital, business income, and of the legal actions within them, thus satisfying the need for information of all the parties concerned, especially the company management, investors, and creditors, and the government.

In 1938, Paton published the work "Essential of accounting," which highlighted aspects of the financial statements. Paton (1938) stated that this statement is of special value to current and potential owners, investors and creditors, and directors and general managers in addressing the balance sheet. Additionally, the author pointed out that this demonstration shows the status of each equity in the company, therefore of outstanding significance for those who have committed capital to the company or are thinking of making this commitment.

In the same context, Paton and Littleton published their monograph in 1940, called "An introduction to corporate accounting standards," which was probably the first work to mention the term standards over principles. In it, Paton and Littleton (1940, p. 1) wrote that "the purpose of accounting is to furnish financial data concerning a business enterprise, compiled and presented to meet the needs of management, investors, and the public." Even though presenting several user groups, Paton and Littleton (1940, p. 2) stressed that "The corporation's most important accounting responsibility, in other words, does not run to one or more owner-operators for each enterprise, but rather to one or more groups or classes of detached investors, present and prospective."

Due to the protection of investors (investors and creditors) created by the SEC, through the Securities Act of 1934, and the various criticisms of the accounting class due to the lack of uniformity in the preparation of the financial statements, accounting theorists, even Paton and Littleton, were influenced to emphasize investors and creditors as the main users of the financial statements. In a way, environmental factors, especially regulations, influenced US accounting researchers in the evolution of accounting theory.

Paton and Littleton (1940) produced effects not only in the US but also in other nations, such as in Britain, where their monograph served as the basis for the first book entitled "Accounting theory," written by...
Harry Norris, in 1946, which focused mainly on improving the coherence of FR following the historical cost model, as evidenced by Zeff (1999). Despite the influence of this monograph on the theory of British accounting, the same cannot be said about the objectives of the FR and the main users. Unlike the US approach, British regulation did not only emphasize capital providers (investors and creditors) as prominent users for FR.

In the reformulation of the AAA executive committee, the work Accounting principles underlying corporate financial statements was published in 1941. It highlights the need to understand the interests of investors and creditors for the preparation of financial statements:

The purpose of periodic financial statements of a corporation is to furnish information that is necessary for the formulation of dependable judgments. A knowledge of the origin and expiration of the economic resources of a company and the resultant changes in the interests of its creditors and investors is essential to this purpose, and these facts should be expressed in such a manner as to make the financial statements both intelligible and, as far as possible, comparable with statements of other periods and of other corporations (AAA, 1941, p. 134, highlighted).

According to Markham (2002), another form of investments that grew, especially in the 1940s, was the periodic payments plan or installment investment plan. The SEC investigations emerged of the SEC due to the accelerated growth of these investments, which uncovered numerous irregularities and led to the formation of the basis for the regulation of these investment companies. As an example, most investment advisers charged their clients based on the percentages of assets, which, in many cases, were managed (Markham, 2002).

In general, even with the action of the AICPA and AAA in the search for accounting principles in the USA, the lack of uniformity persisted in the FR of companies in the 1940s. Investments in securities grew, but the information provided to capital providers remained of low quality, not conferring reliability to the figures disclosed.

The 1950s were marked by the rapid growth of international trade and foreign direct investment, which caused companies to expand their reach beyond their US borders. The rapid expansion of trade was accompanied by high inflation, which also contributed to the reduction in the comparability of the information evidenced in the accounting statements (Hendriksen & Van Breda, 1999). In 1953, AAA published Littleton's monograph, entitled Structure of accounting theory. Chapter 5, Informative reports, highlighted the role of accounting statements as FR to evaluate management, i.e., stewardship. In his monograph, Littleton (1953) often infers that the main users are administrators and owners (or investors).

Staubus (1958) mentions that the AAA did not issue pronouncements that highlighted and clarified user needs, except for the Standards of disclosure for published financial reports, published in 1954, which listed several potential users of corporate reports, such as government agencies, short-and long-term creditors, labor organizations, shareholders, and potential investors. The AAA committee concluded that a single set of accounting statements could not equally meet the needs of these groups and that the interests of some should be identified as primary. Traditionally, this has been the group of investors (AAA, 1957).

Investors, treated by the SEC as proper investors and creditors, had been the most affected by the lack of uniformity in preparing financial information evidenced in the financial statements. Since the early 1930s, accountants focused on these users, even if they addressed others in published productions relating to the accounting theory.

As for the approach to the objectives of the financial statements, the 1950s was important since the published productions, especially in the second half of that decade, initiated the change of direction from the accounting principles to the objectives. Therefore, the accounting pillar, especially the theory, ceased to be accounting principles and became accounting objectives.

4 Objectives of Financial Reporting After the Decision Usefulness Approach

4.1 US Approach

The period between 1940 and 1960 was marked by the resumption of growth and the slight expansion of the capital market in the USA. The provision of information appropriate to user needs became a matter of national importance since they expected certain FR indicators, such as earnings per share, to be indicative of a better (or worse) company. Additionally, international mergers and acquisitions of companies were highlighted in the 1960s, especially when it came to US companies taking over European companies by virtue of the good economic moment experienced at the time and reimplanting their production operations, which ratified the importance of providing information adequate to user needs, especially investors (Hendriksen & Van Breda, 1999).

Unlike the works published in the 1940s and 1950s, by AAA, in 1961, Maurice Moonitz published his monograph entitled The basic postulates of accounting, in which he highlighted a diversity of FR users for whom the accounting statements would be useful. Moonitz (1961, p. 4-5) wrote that:
We could easily be trapped into defining accounting and formulating its postulates, principles, and rules in terms of some special interest, such as the business community, or the regulatory agencies, or investors, or tax collectors. But accounting has been used in the affairs of private business, regulated and unregulated, of profit-motivated enterprises as well as nonprofit ones [...]. We cannot proceed on the premise that accounting is the monopoly of any one group, whether that group is concerned mainly with the development of the accounting process or with its end-product in the form of financial statements and reports.

Moonitz (1961) highlighted the need for equal information for all user groups, i.e., managers, employees, shareholders, creditors, clients, and the public. This view contrasted with earlier publications about users, especially by Paton and Littleton. In a sense, this view diverged from most American accountants and the regulatory environment. Moonitz's thought continued in his subsequent monograph, published in 1962, co-authored by Robert T. Sprouse, entitled A tentative set of broad accounting principles for business enterprises. Sprouse and Moonitz (1962) stated that the principles of financial accounting developed there were designed to meet the needs of all interested groups. In 1966, AAA published A Statement of Basic Accounting Theory (ASOBAT). This publication was the first institutional publication to emphasize that users' needs should be prioritized when preparing financial statements. ASOBAT defined accounting in terms of its usefulness and described it as "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information" (AAA, 1966, p. 1).

Investors were not explicitly identified as users of the accounting information of primary importance. Instead, the committee has focused on the nature of the information, considering relevance as the primary quality of the information due to the reduction in the uncertainty regarding the actual state of many issues of concern to the user, in addition to indicating which useful information is was necessary for internal and external purposes, and classified the users of accounting information into two main groups: external users, which include "present and potential investors, creditors, employees, stock exchange, governmental units, customers, and others" (AAA, 1966, p. 20), and internal users, that is, the "internal management" (AAA, 1966, p. 37).

According to AAA (1966), some external users of accounting information, such as regulatory commissions and tax authorities, not only have special needs but also the power to specify the information to be presented. Although these users are not the primary concern of this discussion, the committee believes that the improvements suggested in that statement could lead to greater reliance on general-purpose FR and fewer requirements for special formulations.

Following the ASOBAT approach, the Statement of the Accounting Principles Board (APB 4), issued by the Accounting Principles Board of the AICPA, highlighted that financial accounting information is used by various groups and for diverse purposes. The needs and expectations of users determine the type of information required. User groups can be broadly classified into those with: (1) direct interests in companies; and (2) indirect interests (AICPA, 1970).

APB 4 (AICPA, 1970) exposes that financial accounting information can be directed to the common needs of one or more user groups or special needs. Despite presenting several users and their needs, the AICPA highlights two groups as being of particular relevance and states that, once producing information for such groups, information is produced for the others:

The basic purpose of financial accounting and financial statements is to provide quantitative financial information about a business enterprise that is useful to statement users, particularly owners and creditors, in making economic decisions. This purpose includes providing information that can be used in evaluating management's effectiveness in fulfilling its stewardship and other managerial responsibilities (AICPA, 1970, p. 32).

The AICPA quickly followed ASOBAT and APB 4 in producing the objectives of the financial statements, better known as the Report of the study group on the objectives of financial statements (Trueblood Report), chaired by Robert Trueblood and assisted by George Sorter as research director. This document reinforced the centrality of decision usefulness addressed in APB 4, as Williams and Ravenscroft (2015) highlighted.

Trueblood's report was the first step towards a new conceptual basis aimed at setting accounting standards. The AICPA segregated twelve objectives for the financial statements and highlighted that financial accounting aims to provide information to users of the financial statements that help them make decisions. Among the objectives, a basic, fundamental, and generalized objective was presented: "The basic objective of financial statements is to provide information useful for making economic decisions" (AICPA, 1973, p. 13).

The AICPA also reduced the types of users considered of interest, maintaining that useful accounting statements should primarily serve users with limited authority, ability, or resources to obtain information. It highlighted investors and creditors as the main users for the financial statements (AICPA, 1973). Thus, it synthesized the approach of decision usefulness previously defended by Staubus (1954,
1958, 1959, 1961) and Horngren and Sorter (1961), and propagated by ASOBAT (AAA, 1966) and APB 4 (AICPA, 1970).

Trueblood's report further highlighted that DC is essential for those with limited access to information and limited ability to interpret it (AICPA, 1970). Aligned with this thinking, the committee highlighted that an objective of financial statements "is to serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise’s economic activities" (AICPA, 1973, p. 17).

Thus, the information needs of creditors and investors are essentially the same. Both groups are concerned about the company's ability to generate cash flows for them and their own ability to predict, compare, and evaluate the amount, time, and uncertainty related to these future cash flows (AICPA, 1973). Therefore, "an objective of financial statements is to provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flows to them in terms amount, timing, and related uncertainty" (AICPA, 1973, p. 20).

Subsequently, the Financial Accounting Standards Board (FASB) issued a Statement of Financial Accounting Concepts nº 1 (SFAC 1) on the objectives of financial information. It maintained that the objective of financial information was "to provide information that is useful in making business and economic decisions—for making reasoned choices among alternative uses of scarce resources in the conduct of business and economic activities" (FASB, 1978, p. 9). The FASB detailed a true list of possible users of these FR, including owners, creditors, suppliers, potential investors and creditors, employees, managers, clients, financial analysts, regulators, unions, and the general public (FASB, 1978). Even though the list includes several user groups as per Trueblood's Study Group, it was narrowed down in later SFAC updates to emphasize the information needs of investors and creditors.

In summary, FR policymaking in the US has been focused on decision usefulness for more than 40 years. When choosing between alternative forms of presenting accounting data, policymakers require technique-based FR that they believe produces the most useful information for economic decision-making by certain designated users. Thus, the accounting theory in the US focused on investors and creditors as the main users of financial information. Environmental factors (legal environment, institutional, regulation, educational system, economic, among others), especially regulation, having always been linked to the development of accounting, influenced the development of accounting theory, privileging investors and creditors to the detriment of other users.

4.2 British Approach

The British followed different paths from the Americans in the approach to accounting theory, although, in principle, they were in part based on the monograph of Paton and Littleton (1940). According to Hendriksen and Van Breda (1999), while accounting regulation in the US emphasized the pursuit of accounting principles, the requirement was primarily for disclosure in the UK. The British did not converge the purpose of the FR to serve specific user groups. The objective of the FR followed a broader definition, to the point of emphasizing the manager’s accountability over the resources entrusted to him. This is not to say that the FR in the US was not useful for evaluating management, but that this was not emphasized in that country.

The Council of Institute of Chartered Accountants in England and Wales (ICAEW) stated, in 1952, in Recommendation nº 15 on accounting principles, that "the primary purpose of the annual accounts of a business is to present information to the proprietors, showing how their funds have been utilised and the profits derived from such use" (ICAEW, 2014, p. 85). In 1974, the Accounting Standards Steering Committee (ASSC, 1975, p. 1) issued The corporate report, which aimed to “identify the persons or groups for whom published financial reports should be prepared, and the information appropriate to their interests”.

The corporate report stressed that “corporate reporting are the primary means by which the management of an entity is able to fulfill its reporting responsibility by demonstrating how resources with which it was entrusted have been used” (ASSC, 1975, p. 16). This report identified a wide range of user groups: equity investors, loan lenders, employees, analyst-consultants, business contact group (including suppliers, commercial lenders, and clients), the government, and the general public (ASSC, 1975). The ASSC (1975, p. 20) listed the needs of user groups highlighting, as for investors, among other aspects, the following:

a) Evaluating the performance of the entity.

b) Evaluating the effectiveness of the entity in achieving objectives established previously by its management, members, or owners [...].

c) Evaluating managerial performance, efficiency, and objectives [...].

d) Estimating the future prospects of the entity, including its capacity to pay dividends, and predicting future levels of investment.
Following in the line of *The corporate report*, the research committee of the *Institute of Chartered Accountants of Scotland* (ICAS) published a discussion paper called *Making corporate reports valuable* (MCRV) (McMonnies, 1988). Referring to *The corporate report*, in which seven user groups stood out, the MCRV pointed out that corporate reports aim to communicate directly with only four groups: "(a) the equity investor group; (b) the loan lenders group; (c) the employee group; and, (d) other creditors" (McMonnies, 1988, p. 20).

Internal and external information needs were listed. The committee's user needs list was ambitious and focused on information about the objectives and plans of the administration (McMonnies, 1988). The ICAS stressed that investors in an entity should be interested in assessing the efficiency of management and future prospects (McMonnies, 1988).

In 1989, David Solomons published the *Guidelines for Financial Reporting Standards*. Solomons (1989) pointed out that users of general purpose FR can include anyone who does not have access to internal reports, prepared for the use of company management, and, in some situations, those who do. However, four classes of users are of paramount importance when considering the type of information that FR should provide:

a) present and potential investors;

b) present and potential creditors (including suppliers);

c) present and potential employees, and those who may act for them in bargaining situations, such as trade unions; and

d) present and potential customers [...] (Solomons, 1989, p. 14).

These primary user groups were certainly much more expansive than in any of the publications about the purpose of FR in the US, reflecting Solomon's perception of a different social and economic scenario in Britain compared to the US due, among other aspects, to the influence of regulation. In this sense, the accounting statements must reveal at least: (a) the company's ability to generate profits; and (b) its future solvency (Solomons, 1989).

In general, the British approach to the accounting theory presented its peculiar characteristics. First, the strong highlight of the role of *stewardship*. Although researchers/accountants in the US also understand the importance of accounting statements (financial information) to evaluate the efficiency of management in conducting business. In Great Britain, this role has always been high-profile since quality information would be the one to allow users to evaluate how efficient and effective the use of resources entrusted to the manager is. Second, aligning with the *stewardship*, accounting theory in the UK emphasizes a wide range of users, such as current and potential investors, current and potential creditors, suppliers, current and potential employees, unions, current and potential clients, and the government. To some extent, the British approach did not fully contemplate the *decision usefulness*.

Both approaches to the accounting theory, from the creation of the IASC/IASB and the development of the CF, would influence the objective of the FR evidenced in its scope.

5 Final Considerations

This study analyzed the influence of accounting theory on the conceptual framework, especially in the objective of the general purpose financial report, as proposed in the *Conceptual framework for financial reporting*, issued by IASB (2018). We sought to highlight the evolution of the objectives of the FR produced by the accounting theory over the years and its relationship with what the CF proposes.

From the 1920s, thinkers (researchers) in the US, such as Paton, Littleton, Sanders, Hatfield, Moore, Sprouse, Monitz, Staubus, and others, developed the objectives of FR so that the main users were investors and creditors. Accounting regulation from the 1930s played a prominent role in the influence on accountants to direct their ideas to these two groups of users due to the collapse of the NYSE, understanding them as main users in the elaboration of FR.

In a way, this scenario culminated in the *decision usefulness* approach proposed by George Staubus, which emphasizes that if we cannot prepare accounting statements useful to all users, we must meet the majority's wishes. In this conception, meeting the interests of investors and creditors, accountants would be serving the majority of users. Staubus proposed that the emphasis of accounting should be aimed at meeting the objectives of users. This idea was incorporated in ASOBAT and APB 4, published by AAA and AICPA, respectively.

By virtue of the context, the convergence of accounting theory towards investors and creditors aligns with the *decision usefulness* proposed by Staubus and does not harm other users. On the contrary, it is understood that there is no possibility of elaboration of FR that serve all users in the same way. However, it is noteworthy that meeting all of them could simultaneously result in worse information quality due to the diversity of needs of different users. Thus, it can be inferred that the accounting theory aligned with the
socio-economic and political context influenced the definition of the objectives of the general purpose FR evidenced in the CF.

In turn, the accounting theory in the United Kingdom was initially influenced by the accounting theory developed in the USA, as, for example, by the thesis of Paton and Littleton (1940). However, environmental factors drove the British researchers to develop some characteristics that were peculiar to them. Therefore, the accounting theory in the UK focused on stewardship. In other words, the accounting statements should provide information to evaluate the efficiency and effectiveness of management in using the resources entrusted to it.

In this context, the first version of the IASB CF, concerning the objectives of the FR, had greater influence of the accounting precepts of the United Kingdom than of the USA. Several FR users were highlighted: current and potential investors, employees, creditors, suppliers and other commercial creditors, clients, governments and their agencies, and the general public (IASC, 1989). Such users and their needs were treated equally, with no privileges for some to the detriment of others. The 2010 CF and the 2018 CF follow the US approach, emphasizing the decision usefulness and highlighting investors and creditors as main users to the detriment of others.

Therefore, it is possible to infer, concerning the objectives of the general purpose of FR, that the CF closely follows the accounting theory, possibly due to the influence of researchers on the creation of entities (AAA, AICPA, ICAEW, FASB, and others) and these in the IASB policies. Since this research design has imposed limitations, it is recommended for future studies to extend the research to other aspects of CF, such as the qualitative characteristics and the elements of the accounting statements. Other investigations can be carried out, such as evidence to what extent the adoption of the principles-based accounting model encouraged the contribution, by foreign investors, of venture capital participation in Brazilian companies and whether the subjective increase in quality compensated the costs of implementing the IFRS standard in companies.

References


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NOTES

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