1976

World of I, you and it

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Recommended Citation

Tempo, Vol. 22, no. 1 (1976), p. 38-39

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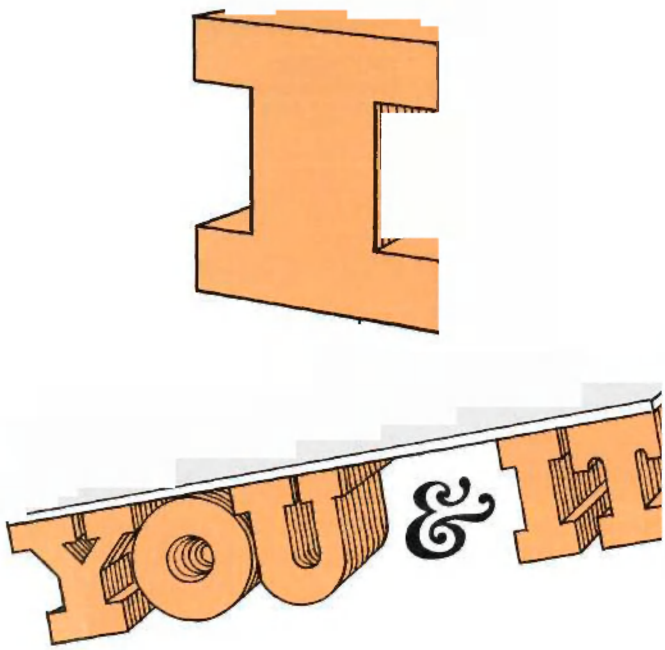

by YUJI IJIRI/Carnegie-Mellon University

Some time ago, my 10-year-old daughter asked me what I taught at school. I said, "accounting." Her response was: "I know 'counting. That's one, two, three, four."

Suddenly it struck me how fundamentally *different* accounting is from counting.

Counting is intrapersonal. One counts the objects all by oneself. Accounting, on the other hand, is interpersonal. Its primary function is not to count but to *account for* one's activities (on the part of the "accountor") and their consequences to someone else (the "accountee"). The "accountant" enters as a third party so that the *accountability* relationship between the first two parties functions smoothly.

Our society is founded upon a complex network of accountability. Corporations are accountable to shareholders and creditors for the use of their funds, to consumers for their products, to the public in general for the use of the public goods. Department heads are accountable to division managers, who are in turn accountable to headquarters. People are accountable to various governmental agencies in many areas of life, and in turn the government is accountable to the people for its activities.

Based on the accountability relationship, the accountee is entitled to receive information on the accountor's present status, including the degree to which he has achieved the goal assigned to him. Financial statements are an example of such information supplied to the accountee.

The accountant's role is to assure the "fairness" of the information supplied to the accountee. Thus, the auditors in an annual report emphasize that "the above financial statements present *fairly* the financial position and the operating results of the corporation."

The question is: "What is the ultimate basis by which the accountant can judge what is fair?"

To answer this question, we must note that the accountability relationship between, say, a You and an I, is quite different from the relationship between an I and an It—even if the I receives the same information concerning the You and the It. Why? Because the It does not complain that the performance score the accountant supplied to the I was unfair. The It does not complain that the information the accountant supplied to the I infringed upon its privacy. But the You does.

In the world of I and It, fairness is judged only from the standpoint of the I, since the It is merely a tool of the I. Fairness is nothing more than an accurate presentation of the behavior of the It. Therefore, a highly structured accounting system based on a hierarchy of objectives, postulates, principles, and procedures can easily be implemented.

In the world of and You, however, there is often a great discrepancy between what the I considers to be fair and what the You considers to be fair. Somehow the accountant must decide between the two conflicting views. In some instances, in fact, applying a universal rule is alleged to be unfair, and so it is chopped down to a set of local rules. A highly logical system is thus crushed during the conceptual fight between the two parties.

Nevertheless, most people do not think of the accountant in terms of the world of I and You. Most accounting theories today discuss accounting only in terms of the world of I and It. The standard definition of accounting is: a system for supplying information to a decision maker, the I, about his economic environment, the It. These theories almost never treat, as part of the economic environment, humans claiming their own rights.

Unless people consider accounting in terms of the world of I and You, they can never understand the problems that the accounting profession must face up to.

For example, naive observers often accuse the accountant of adding apples and oranges, and of allocating the result arbitrarily. The reason why the accountant must add apples and oranges is explained by the old doctrine of "safety in numbers." In our democratic society, we frequently reach decisions by polling the members of a group and then adding up the yeses and nos. This is, in fact, like adding apples and oranges, since people differ so much in so many respects. Nevertheless, we choose this method of decision-making, because we believe that in the long run such a system of decision making by a group is safer than a decision by an individual, however expert he may be.

In the same way, the accountant adds apples and oranges, even if he knows that the value of a plant or an enterprise can be appraised without such an arithmetic, because a system based on an accumulation of a large number of decisions is safer in the long run than an autocratic accounting system whose output depends solely upon a few decisions.

The accountant must also set up many arbitrary allocation rules or cutoff rules, because he is forced to separate what is fundamentally inseparable. He is forced to answer the famous question in Zen Buddhism where a monk claps his hands and asks which hand made the noise.

Why does the accountant have to separate inseparables, allocate unallocables? Because society frequently demands a simple answer to a complex problem so that it can go on to another problem instead of staring at the two hands. It is also because society needs a simple indicator of performance for motivational purposes, even if it is absurd to represent a huge mass of complex activities by a single indicator such as earnings per share.

These rules for additions and allocations, however arbitrary they may be, have become the so-called generally accepted accounting principles, which, in the past at least, were considered the primary basis for judging fairness.

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Several years ago, however, the court struck down this basis in the famous Continental Vending Company case, where the accountants were held responsible for not having gone beyond generally accepted accounting principles in assuring a fair presentation.

This brings us back to the question raised earlier: In this rapidly changing world, where concepts change, theories change, and moral standards change, on what basis can the accountant defend his judgment of fairness? The accounting profession has been searching for just such a basis, for it is indispensable if we are to insure the uniform quality of the accountant's work and to protect the profession when a controversy arises over the interpretation of fairness.

Unfortunately, attempts to place the accounting profession upon a solid philosophical base all too often seem to reach a negative conclusion. That is, the accountant appears destined to be free when he faces the decision of what is fair and what is not fair, just as humans are, according to some philosophers, destined to be free in deciding what is right and what is wrong.

Because the accountant is fundamentally free in the choice he makes, he alone must take the full responsibility for his choice. He suffers from his freedom. He wants to be bound by theories, precedents, generally accepted accounting principles, and the like. But they all crumble at the slightest change in the direction of the tide, as they have during the last few years. How diametrically opposite this is from the commonly accepted image of the accountant with a green eyeshade mechanically pushing pencils.

What can the accountant do to soothe the agony of his choice? It is certainly helpful for him to improve his technical competence and professional independence. Even if his judgment on fairness is later considered to be erroneous, his alleged error may be excused if he can successfully demonstrate both his competence and his independence.

However, competence and independence alone will not be of much help as long as there is a gap between what accounting truly is and what people think accounting is, since under our legal system a controversy over fairness is ultimately referred to the people to judge.

That is why we need to get people to understand the fundamental nature of accounting, starting with accounting education in school. There are many areas in accounting in which improvements are very much needed. And there are other areas in which accounting should be developed in the future. But unless people understand that such improvements and developments must be made in harmony with the foundation, the world of I and You, upon which accounting has been constructed, they will lose patience at the seemingly slow progress of the profession.