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Shortly after its issuance, FASB Statement No. 33, "Financial Reporting and Changing Prices" (FASB, 1979) was labelled as "the great experiment" (Berliner and Gerboth, 1980). The Board admitted the experimental nature of the Statement and pledged a comprehensive review of the project within five years. This review would be to determine what changes might be appropriate and even to consider the feasibility of continuing or terminating the requirements of the Statement. The Board requested research to gain insight relative to SFAS No. 33 (FASB, 1981). Our study was in response to the Boards' call for research to assist in the evaluation of SFAS No. 33.

Earlier this year, the Board held hearings on the results of selected research studies (FASB Research Conference, Jan. 6, 1983, White Plains, N.Y.). After these hearings, it is unfortunately apparent that neither the Board nor the American Institute of CPAs wishes to widely publicize the glaring disappointment of their "experiment." Simply stated: one of the most valuable, if not crucial points discerned from this study was the overwhelming expression concerning the lack of utility of SFAS No. 33 disclosures, as perceived by the senior corporate financial preparers of such information.

Equally crucial is the apparent inconsistency between SFAS No. 33 and several of the major portions of the conceptual framework study as outlined in the Statements of Financial Accounting Concepts.

Given the significant nature of these findings, it would appear imperative that the Board consider the impact of these observations relative to continued financial reporting as required by SFAS No. 33. Furthermore, if the Board wishes to retain any pretense of responsiveness to the business community, it must, in the next phase of the conceptual framework project, consider the obvious negative ramifications of suggesting either the abandonment or significant modification of traditional accounting recognition and measurement bases used in the primary financial statements.

In Statement of Financial Accounting Concepts No. 1, the Board stated that: "Management is as interested in information about assets, liabilities, earnings, and related elements as external users, and...generally needs the same kinds of information about those elements as external users. Thus, management is a *major user of the same information* that is provided by external financial reporting" (FASB, 1978). If one accepts the validity of this statement by the Board, the study that follows shows that management virtually rejects the derivation of any significant economic benefit from the information provided as a requirement of SFAS NO. 33. This makes the Statement fail the qualitative test of providing "relevant" ("ability to make a difference," SFAC No. 2, 1980) information and therefore is not a provider of useful information to decision-makers. It would seem, instead, to be a dogmatic financial reporting requirement that may cause the economically dysfunctional use of scarce resources.

RESEARCH METHODOLOGY

One of the best ways to determine the usefulness of the information required under SFAS No. 33 would be to ask the people directly involved in the process. The starting point seemed to be with the preparers of such information.

These preparers not only disclose the dollar information in a somewhat specific format, but also explain the amounts for readers (users) of the financial statements. The process of understanding the requirements of SFAS No. 33 as well as presenting and explaining its informational value, and enthusiastic participation in this experiment mandated by the FASB must necessarily start with the preparers of the information.

Survey

Selection was made of all companies that reported at least $1 billion of assets in the 1980 Fortune 500 industrial list. This is one of the criteria stipulated by the FASB to determine which entities would report SFAS No. 33 data. There were 229 companies meeting this dollar criteria. In July 1981, the survey form was sent to this census of companies.

Analysis

Survey Questions 1 through 3 asked respondents to rank the benefits of SFAS No. 33 information on a 5 point scale from "No Benefit" (1) to "Extremely Beneficial" (5).

Survey Question 4 invited a choice as to the best means of presenting SFAS No. 33 information and is explained in the narrative without a table.

Survey Question 6 invited open-end

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dollar estimates for the direct incremental costs of SFAS No. 33 data over several periods. Of the 229 questionnaires mailed, 78 usable responses were received for and overall response rate of 34.1%.

Internal Benefits

In response to the first question, relative to internal management decisions in such areas as inventory levels, dividends payouts, equipment replacement, etc., over half (51.3%) of the respondents felt the information was of no benefit. Fully 81% felt the information was either of no benefit or of minimal benefit. In fact, the mean response of 1.7 was between these two points of perceived value.

Question 2 raised the benefit issue with respect to major credit granting decisions involving major sales contracts and investments purchases. There were no respondents who felt the benefits were more than *somewhat useful.* A very high percentage (80.6%) felt there were *no benefits* in this area, and 95.9% felt that there were either *no benefits* or *minimal benefits*. The mean response rate of 1.2 is quite close the the "no benefit" scale value.

In Question 3, the companies are asked about benefits in the areas of subsidiary acquisitions and other stock purchases as well as major asset purchases. The response is very similar to Question 1. The mean response is 1.7, with 52% feeling that the information is of *no benefit* in this area, and another 24% feeling that any benefit is *minimal*.

Quite obviously, a review of the statistics pertaining to the first three survey questions reveal an overwhelming negative response to the value of SFAS No. 33 information to management. It is apparent that management, as the preparers of the information required by SFAS No. 33, perceive themselves as receiving *minimal* or *no benefit* from this experiment.

Financial Statement Disclosure

In survey Question 4, companies were asked whether the inflation data should be a required supplement to historical cost; or used as the basis for primary financial statements with historical cost statements presented as supplemental data; or whether SFAS No. 33 information should not be required at all. There were 72 responses to this question resulting in an overall response rate of 31.4%.

While a sizable minority (20.8%) felt that the information should not be required, the overwhelming choice (72.2%) felt that the information should be presented as now required, i.e., as a supplement to historical cost financial statements. This is a heartening response in view of the negative feeling with respect to internal benefits as discussed above.

Cost of the Information

Survey Questions 5 and 6 relate to the cost of providing the SFAS No. 33 information. In Question 5, the *full* cost of providing the information is requested. In Question 6, the *direct incremental* cost is requested.

Full Cost. For the first, second and third years of preparation the mean response in all three periods was rather close to the range of $50,001 - $100,000. In fact, a sizable majority felt that the full cost would not exceed $100,000 in any time period. The mean declined from 2.2 (first year) to 1.9 (second year) and 1.8 (future years), indicating, as expected, a cost decline as companies gain experience in data gathering. It should be noted that the response rate declined from 31% to 28.8% over the three time periods, perhaps indicting a hesitancy on the part of the companies to make future projections.

Direct Incremental Cost. Survey Question 6 asked the respondents to supply a dollar value for only the *direct incremental* costs involved in generating the required information. The response rate was significantly less than that of Question 5. This could be due to the fact that open-ended questions typically show a lower response rate, or it could be that some companies had not attempted to segregate costs in this manner. As in Question 5, the response rate to this question declined as estimates of future costs were given.

At its highest point the extimated mean direct cost is $55,800 (first year). If one would agree that direct incremental costs are the most relevant, this would not seem too high a price for the largest U.S. industrial corporations to pay for the generation and presentation of *useful* information. It should be emphasized that the costs appear reasonable, not that they are insignificant.

Major Problems Generating Information

Table 1 summarizes the major problems mentioned most frequently by respondents insofar as the generation of SFAS No. 33 data is concerned. Problems (a), (b), (d) and (e) may well have been expected. If one thinks about the generation of the data, it would appear logical that obtaining specific asset costs is both difficult and time consuming; multinational data involves a "mix" of U.S. and foreign inflation environments; there would be problems because of the volume of data in these very large companies; and many individuals and organizations feel that the Consumer Price Index (CPI) is not relevant for the computation of inflation in a business environment. In any event, while *suspected* as being problems, we have now been *told* by the preparers that they are major problems.

It is noteworthy that 17 companies felt the subjectivity of the estimates reduces reliability, credibility and comparability of the information. It is a major problem in any experiment when the preparers express such doubt about the informational content of the data.

Two other problems, though not listed by many companies, deserve to be mentioned. There were seven companies that said a major problem was explaining the data (f). Regardless of how one might interpret this statement, it should point out to everyone that corporate management will have to do an even better job of explaining such data in the future if it is to be of any benefit to users of financial reports.

There were five companies that thought the use of *both* current cost and constant dollar data was confusing (g). Although this point was not listed

Table 1

This table lists the statements most frequently given by respondents as the major problems involved with the generation of information required by SFAS No. 33.

	Number of times statement listed	Percentage of respondents listing the statement
a) Estimating specific cost of operational assets, (including depreciation), inventory and other assets	24	32.4
b) Multinationals have difficulty in obtaining data from foreign operations.	17	23.0
c) The subjectivity of the estimates reduces reliability, credibility and comparability	17	23.0
d) Clerical problems with the volume of data	13	17.6
e) Selection of indices, since the CPI is not considered relevant	12	16.2
f) Explaining the data presented	7	9.5
g) Use of both current cost and constant dollar methods is confusing	5	6.8
h) Difficult to get the data on a timely basis for the annual report	3	4.1
i) No problems encountered	3	4.1

Note: In reply to question 7, there were 74 respondents, giving an over-all response rate of 32.3%. Due to multiple responses to the question, the percentage total will exceed 100% and, accordingly, the number of responses will exceed the number of respondents.

Table 2

This table lists the statements most frequently given by respondents as the major advantages of providing the information as required by SFAS No. 33.

	Number of times statement listed	Percentage of respondents listing the statement
a) May generate a more realistic/favorable income tax environment	26	37.1
b) Helps management understand inflation	9	12.9
c) Aids comparability among companies	9	12.9
d) Reveals business firms are not doing as well as cost basis financial statements have indicated	8	11.4
e) More realistic presentation of profits	5	7.1
f) Reveals erosion of capital; companies liquidating themselves (dividend payout)	5	7.1
g) Helps investors understand inflation	5	7.1
h) Any, advantages are questionable	3	4.3
i) No advantages	10	14.3

Note: In reply to question 8, there were 70 respondents, giving an over-all response rate of 30.1%. Due to multiple responses to the question, the percentage total will exceed 100% and, accordingly, the number of responses will exceed the number of respondents.

Table 3

This table lists the statements most frequently given by respondents as to how the SFAS No. 33 information will improve the decision-making process of *external users* of the information.

	Number of times statement listed	Percentage of respondents listing the statement
a) Will make them aware of unsound income tax policies	6	8.8
b) Sophisticated users will not benefit, as they do not need the information	6	8.8
c) Not helpful to non-sophisticated users	4	5.9
d) No short-term benefit; perhaps a long-term benefit	6	8.8
e) Since the information is unreliable, it will only confuse investors	10	14.7
f) It will have a small impact, generating minimal to little benefit	24	35.3
g) Will not improve the decision-making process of external users	16	23.5

Note: (a) There were 68 respondents, giving an over-all response rate of 29.7%. Due to multiple responses to the question, the percentage total will exceed 100% and, accordingly, the number of responses will exceed the number of respondents.

(b) Since this question was designed to elicit *positive* statements, and only one such statement was given with significant frequency, this statement was listed first. All other statements were listed in order of their negative tone.

Table 4

This table lists the statements most frequently given by respondents as to their opinion of the criticisms external users have of the disclosure requirements of SFAS No. 33.

	Number of times statement listed	Percentage of respondents listing the statement
a) Data is not relevant, as it is too subjective and based on inconsistent assumptions	21	30.0
b) Use of both current cost and constant dollar	14	20.0
c) Information is not comparable among companies	13	18.6
d) They don't understand the data	10	14.3
e) The data is too complex	7	10.0
f) Because of the lack of management discussion of the data, they have no indication of management's programs for dealing with inflation	7	10.0
g) Foreign data is not comparable to U.S. data	5	7.1

Note: There were 70 respondents, giving an over-all response rate of 30.6%. Due to multiple responses to the question, the percentage total will exceed 100% and, accordingly, the number of responses will exceed the number of respondents.

by many companies, it was included in the table, since it also appears in other parts of the study.

Major Advantages of Providing Information

Of all the major advantages listed in Table 2 the one listed with the greatest frequency by far was the hope that the information disclosed may generate a more realistic/favorable tax climate. In fact, one of the respondents was genuinely disappointed that a more favorable tax climate had not already been generated.

It was interesting to note that while only five companies felt that the information would help investors understand inflation, there were almost twice as many companies (nine) that felt the information would help *management* understand inflation. Of course, neither statement involved a large number of respondents.

In comment (c) there were nine respondents feeling that a major advantage lies in the information aiding comparability among companies. It is strange that 12.9% listed comparability as an *advantage*, while 23% (Table 1, comment c) listed a lack of comparability as a *disadvantage*. The respondents' comments did not aid us in explaining these seemingly contradictory points.

Some interesting comments in Table 2 are the last two items. A total of 14.3% of the respondents felt there were *no* advantages, and an additional 4.3% felt any advantages in providing the information were minimal. When 18.6% of respondents express doubt about the advantages of generating information, their support of continuing experimentation understandably will be lukewarm at best.

How Information Will Improve Decision-Making of External Users

The data in Table 3 are perhaps the most interesting in the survey. The reader should note that the questionnaire solicited responses as to how the *preparers* of SFAS No. 33 information felt this information would *aid* decision-making of *external users*. The seven most frequently given responses are listed in Table 3, and only *one* (a) is a totally positive statement. The remaining six comments range (in descending order) from somewhat negative to totally negative. In fact, almost one-quarter (23.5%) of the responding companies felt that there would be *no* improvement in decision-making of external users as a result of providing the required SFAS No. 33 information. This is the first of two questions (9 and 10) that ask the *preparers* to give their viewpoints on the effect of the information on *users*. It should be emphasized that these are the perceptions the preparers have of user benefits. The response rate for this question was only 29.7%. This may indicate some unwillingness on the part of one group (preparers) to attempt to evaluate the informational effect on another group (external users). In one of the non-tabulated responses the reply was, "You'll have to ask them. We have *never* had a security analyst ever refer to the numbers, much less ask about them."

Respondents Listing Of The Criticisms External Users May Have On The Information

Table 4 lists the statements given in response to Question 10. This question again pertains to external users by asking the preparers what they perceive to be the major criticisms external users may have of the disclosure requirements of SFAS No. 33.

Since the FASB accepts the preparer of financial data to also be a "major user" of such information, it is assumed the preparers would be able to evaluate users' problems in an informed manner.

The relevance of the data, its subjectivity and inconsistent assumptions are listed as a major criticism by 30% of the respondents. In second place, 20% of the respondents felt that the use of two methods (current cost and constant dollar) is confusing. It is interesting to note that both of these responses were listed as major problems in generating the information (Table 1). Apparently the respondents see these as problems for both preparers and users of the information.

The third statement listed (c) deals with comparability of data among companies. Respondents see this as a criticism that external users have. This is in agreement with Question 7, where respondents mentioned comparability (Table 1, Item c) as a problem in generating the information. However, both these answers are at odds with the response to Question 8, where providing the information was considered an aid to comparability by 12.9% of the respondents to that question (Table 2, Item c).

It was hoped that the "great experiment" would generate a more realistic/favorable tax climate.

Another point that merits attention here is the fact that 10% of the respondents felt that a lack of management discussion of the data creates a problem. In response to Question 7 (Table 1, Item f), 9.5% of those responding felt that one of the major problems involved in generating the information was in explaining the data presented. While neither response rate may be considered extremely significant, this could indicate that some preparers are aware of a communications problem.

Survey Critique

Although the questionnaire was reviewed in whole or part with colleagues, it was not pre-tested on a preparer group. It was felt that this would be an unnecessary delay and that relevant input data was needed promptly.

Conclusions

It is considered both useful and interesting to note some of the comments that were received from those who responded to the survey. The strong feelings of the respondents can be gauged by the response itself.

Favorable Comments

"FASB No. 33 information will become more useful as it becomes more familiar.

"I believe a positive step has been taken.

"The FASB and industry will improve on reporting requirements."

Unfavorable Comments

"Junk the program.

"FASB is not needed to explain that today's dollar is worth less than yesterday's.

"The entire exercise is one of sheer nonsense and is of absolutely no value to anyone making long range business decisions.

"Experimentation is necessary, but experimental data, which could mislead, should be kept out of published financial statements.

"FASB No. 33 is a total waste of time and misleading to the reader.

"Smaller companies should also be required to comply as they are less flexible and more affected by inflation. This rule is more related to "speculative" companies than "blue chip" companies.

"To price level adjust existing productive assets and the related expenses implies these assets would exist even at the higher cost. If economics teaches us anything, it is that spending and investment patterns change as prices change. Since FAS-33 assumes the same assets would exist even though prices are much higher, the statement is economically in error. Inflation adjusted information is useful for futuristic estimations but not for the preparation of historical balance sheets and income statements. The emphasis of FAS-33 is misplaced."

The negative comments run the gamut from a terse, apparently emotional response, to a lengthy, well-written comment with an economic viewpoint.

Summary

In terms of the objective of financial reporting, it is quite obvious that corporate preparers do not perceive the disclosures required by SFAS No. 33 as being useful in assessing "investment and credit decisions" (FASB, 1978). A similar view was expressed by Bloom and Debessay (May, 1981) in a critical analysis of SFAS No. 33.

Another somewhat related study by Casey and Sandretto (November-December, 1981) supports a number of findings. Even after the promulgation of SFAS No. 33 over three years ago, a majority (55%) of their respondents still do not have an internal "inflation adjusted system" (I.A.S.) of accounting. Reasons given for lack of such a system include: subjectivity, lack of relevance, complexity, and cost. While a significant portion (45%) of their respondents indicated that upper management was provided with inflation adjusted data, the authors stated the study did not reveal any actual use of data by management.

Furthermore, in the current study, preparers of SFAS No. 33 data appear highly skeptical that the mandated disclosures possess the extremely crucial qualitative characteristics of understandability, reliability, and comparability as demanded by Statement of Financial Accounting Concepts No. 2 (FASB, 1980). Accordingly, if some type of "inflation accounting" information is to continue to be prepared and disclosed in published financial statements, it is imperative that the *preparers* of this information be convinced of its beneficial effect on the user groups. The overall results of this survey indicate this is *not* the case at present. Without the wholehearted cooperation of preparers of the information, the FASB experiment may well fail. While an FASB pronouncement may force companies to prepare and present such data in their financial statements, the reporting entities can negate much or all of any potential benefit in the explanations and comments management prepares to accompany the information. One respondent stated that in the company's footnote management commented that the methodology stipulated in FASB No. 33 was *not* the best way to present inflation data. A number of companies sent us copies of their annual reports. Accordingly, in the course of this study it became apparent that other companies have included such "disclaimers" in the inflation footnote. Such negative approaches, though not pervasive among reporting entities, could destroy the credibility of the information given, and lead to user rejection of such information.

Recommendations

The FASB should make a determined effort to convince *user groups* to communicate their views of this information directly *to the preparers* of the financial statements. If the user groups feel the information could be improved, they should offer constructive criticism to both the preparers and the FASB. If user groups do not perceive any benefit from the information, they should so state to *both* the preparers and the FASB. Obviously, "sophisticated" users, such as financial analysts, will be easier to reach, since they are readily identifiable. The "unsophisticated" user or "average investor" is both ill-defined and widespread. Perhaps some of these users could be contacted by the preparers themselves, possibly at the annual stockholders' meetings.

Difficult thought it may be, communications among preparers, users, and the FASB must be established and continued. The failure of this FASB experiment may well result in the SEC imposing another ill-conceived ASR 190 on the accounting profession.

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