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10-11-1971

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the American Institute of Certified Public Accountants 84th  
Annual Meeting, Detroit, Michigan, October 11, 1971**

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REPORT ON THE WORK OF THE  
ACCOUNTING OBJECTIVES STUDY GROUP

by

Robert M. Trueblood, Chairman  
at the  
American Institute of Certified Public Accountants  
84th Annual Meeting

Cobo Hall  
Detroit, Michigan  
October 11, 1971

I'm sure that your main interest in the Objectives Study Group centers on what you might expect our conclusions to be, and what consequences might result from our report. But since I somewhat share with most accountants their sentimental and nostalgic regard for past events, I trust that you will pardon me if I devote a portion of my allotted time to recounting some of the history and thought that led to the formation of our Study Group.

Only 40 years ago, Henry Rand Hatfield, in addressing the annual meeting of the American Institute, said, "Accounting needs above all else the formulation of sound theories." In 1957, the special committee which led to the formation of the APB pointed out that the broad problems of financial accounting required attention at four levels. Paramount among these needs, they said,

was the formulation of postulates -- which were defined as being "few in number, and basic assumptions on which principles rest."

In 1961, my late colleague Bill Werntz emphasized the overriding need for " an explicit statement or frame of reference within which to argue the acceptability of particular practice, and a set of criteria by which to test proposed solutions. "

Whatever our needs be -- theories, or postulates, or frames of reference -- these quotations indicate that the call for defining the objectives of accounting has had a long, but unsuccessful, history. The need to repeat such essentially similar statements from time to time obviously demonstrates that the search for objectives has thus far failed.

However, lest we deprecate ourselves too much, it bears pointing out that this lack of underlying theory or objective is not unique to accounting. This lack characterizes the infancy of most professions. As Danzig stated, "the concrete has (always) preceded the abstract." And, if this were true for mathematics, we need not apologize that it is also true for accounting. A profession in its youth must clearly concentrate on particular problems and concrete situations. There is little time to study, and there is little realistic hope of easily discovering the grand design.

It is equally true that if a profession is to mature, it must develop a theory, a purpose, a structure. If a profession does not search beyond the particular and the concrete, and if a profession does not strive for definition

of the abstract -- problems multiply. Each problem then requires individual attention, and an individual solution. But individual and particular solutions tend to conflict with each other, to be duplicative, and wasteful. As accountants, we know this only too well.

A wise friend of mine once said. "It's rather inefficient to be required to rediscover penicillin for each new infection."

There are other disadvantages to a problem-by-problem approach -- primarily that the problem has to exist in order for it to be solved. But once a critical, topical problem exists -- someone is upset, someone has been harmed, and someone is once again dissatisfied with accounting. Unfortunately, absent a basic framework or structure, problems cannot be solved in an anticipatory manner.

Even if we grant that accountants have been reasonably successful in fighting brushfires, the mere existence of the firm means that in some part of the forest resources have already been consumed. Extinguishing a brushfire, while stopping further damage in an isolated area, does not prevent incendiary destruction in the future.

What we need, but so far have been unable to develop, is a statement of basic objectives that allows the structuring, the identification, and the analysis of potential problems and solutions -- a statement of basic objectives responsive and relevant to the needs of users. This is the objective of our Study Group

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What have we done so far to accomplish this?

First, we have reviewed most of the relevant accounting literature, and we found what we feared. There is a dearth of accounting literature dealing explicitly, or even implicitly, with accounting objectives.

Next realizing that much of what might be crucial to our deliberations would not necessarily be found in the accounting literature, we turned to review the significant contributions from other disciplines -- financial analysis, economics, and the behavioral sciences.

We then recognized what we intuitively knew. If our job were easier, it would have been done long ago. The answers are not in the library. We will have to discover them ourselves.



I must make one aside about the structure of our committee, which I believe unique in the operation of the Institute. Not only do we have hard-working, dedicated, and concerned Study Group members -- but we also have a full-time staff recruited from practice, from the Institute, and from the campus. As a group, they daily grapple with problems of objectives. While occasionally I would like to see more production and less grappling, I have always believed that this is the only effective way to approach accounting research realistically.

We are presently conducting in-depth interviews with a cross-section of business leaders and decision-makers. Prior to the interviews, we send to each of the participants a guide developed by us to identify some of the issues confronting the Study Group.

Among other questions, we are attempting to obtain answers for: 1) How is accounting information used? 2) What additional information is considered necessary or desirable? 3) Is furnishing such information feasible? Each interview is conducted jointly by a staff and Study Group member, and generally lasts at least two hours.

Thus far, the interviewed business leaders have been uniformly enthusiastic about our work, and have contributed considerable time and effort. We hope to have all of these interviews completed and digested by the first of the year. And we are confident that the insights gained from these interviews will assist us in formulating objectives.

So far, we have formally invited each state society, over 50 governmental, business, and professional

organizations, 100 international accounting organizations, 100 Institute member firms, and scores of universities -- to participate in our work. Additionally, publicity in each of the three Institute publications has generated indications of interest from varied, and sometimes surprising segments of government, business, and the public.

If by some mischance, you have not been solicited or exposed to one of our brochures or invitations, consider this a personal request to contribute to our task. We welcome your inputs. We urge your participation.

We have asked that written inputs be furnished the Study Group by January 1. Each of these papers -- from whomever received -- will be evaluated by the staff and by the members of the Objectives Group.

Additionally, public hearings will be held in March and April. Hearings have definitely been scheduled for New York and Chicago, and we are considering additional locations.

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From the beginning, the Study Group has interpreted its charge and its charter as one of broad perspective. The group has not limited the scope of its work to the consideration of the objectives of any particular group of users, or to objectives relevant only to particular entities.

The Study Group is not limiting itself to the consideration of objectives that are implied by present practice, or by presently accepted accounting principles. Similarly, the group is not confining itself to consideration of objectives which would be compatible only with present

methods and formats of attestation.

Instead, the group has and is considering objectives that might sanction:

- the possible disclosure of the impact of social costs and social benefits in financial statements
- the possible measurement and disclosure of opportunity costs
- the possibility of furnishing different statements to different users

Further, the group is including in its inquiries:

- the possible need for forecasts and budgets as part of the basic financial report
- the possibility of presenting the financial health of business in other than historical transaction terms

- the possibility of the use of such measures as replacement costs, exit values, and discounted cash flows
- and the possible utilization of different forms of appropriate attestations

Some of the issues under study have been and are anathema to accountants. Nevertheless, the committee feels that these and other issues are relevant, and must be considered.

If objectives are designed only to accommodate the status quo -- their utility, their acceptance, and their relevance for the future in these changing times is severely restricted.

Identifying objectives consistent only with the status quo reduces motivation for change, however

deficient or however unsatisfactory the present may be. Such myopia inhibits the orderly evolution and growth of the profession. And when orderly evolution and growth are inhibited, revolution too often follows.

By now you must realize our task is not simple. We have undertaken a great challenge, and success is by no means assured. Our primary objective is, of course, to provide a structure which will obviate the need for treating accounting problems on a piecemeal basis. We hope to set forth a framework within which accountants can anticipate issues before they reach the critical stage.

This framework we are struggling to find cannot be so broad as to be not generally useful. On the other hand, our group is mindful that, the line between

basic objectives and useful solutions to present problems is a fuzzy one. It would be completely wrong for our group to impinge in any way upon the present and future work of the APB. Thus, the group must avoid formulating a long series of concrete and explicit suggestions for immediate change in practice. The Objectives Group must be conscious of implementation and timing problems, but its output and its findings must not be restricted by the constraints of a requirement for immediate implementation.

We are cautiously optimistic that, by the time of this annual meeting next year, we can deliver to you objectives that are useful to the profession, and which will be accepted by society as responsive to its needs and to its legitimate demands.



If we are even moderately successful in this attempt, our statement of objectives will in my view represent a vital and a welcome contribution towards the maturity of our profession.

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