

Accounting, Evaluation and Economic Behavior

RAYMOND J. CHAMBERS

*Professor of Accounting
The University of Sydney*



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FOREWORD TO SERIES

During the 1960s and 1970s a remarkable series of books were produced by academic staff in the field of accounting at the University of Sydney. All were out of print. The Accounting Foundation believed that they should be made available to a new generation of scholars and researchers.

First and foremost amongst these was *Accounting, Evaluation and Economic Behavior (AEEB)*, written by the University's foundation professor of accounting, R.J. Chambers and first published in 1966. Several distinguished scholars have acknowledged that *AEEB* was a pivotal contribution to the development of the 'decision usefulness' theme in accounting research. It presented a systematic argument for the clarification of the meaning of key accounting concepts (such as 'asset', 'liability', 'equity', 'revenue' and 'expense'). It argued that there was a need to identify the property of assets and liabilities to be measured in accounting—with Chambers proposing the use of current market prices, or contemporary cash equivalents. It also argued for the use of adjustments to the application of money as a measurement scale when there were changes in the purchasing power of money. Decades later, many (though not all) of these ideas were adopted by the international accounting profession, when profession-sponsored bodies published 'statements of accounting concepts' or statements of conceptual 'frameworks'.

Chambers was a prolific contributor to research journals and many of those journal contributions are now available in electronic form. Amongst his later contributions in book form was *Securities and Obscurities*. When first published Chambers freely acknowledged that it was a polemic. Readers are left in no doubt that the world would be a better place if there was widespread adoption of 'continuously contemporary accounting'. Suffice it to observe that during the 1960s, questioning of the 'historical cost' model of accounting was often regarded as a form of heresy. By 2006, a surprising proportion of accounting standards now prescribe the use of market values in asset or liability valuation.

But arguably Chambers' greatest legacy at the University of Sydney was his encouragement of scholarly endeavour by colleagues and students.

The other books re-published at this time were all initially based on research undertaken by academic staff during the 1970s and early 1980s. The topics reflect the diversity of interests of the 'Sydney school' at that time: Clarke (1980) on the history of price level accounting, Walker (1978) on the history of ideas about the preparation of consolidated statements, Wells (1978) on accounting for common costs, and Wolnizer (1987) on auditing as independent authentication.

It was a period when academic research was largely analytical rather than empirically-based; and when the interests of academics at Sydney were largely directed at questioning the status quo—whether that be expressed in the way accounting or auditing was practised, or in the conventional wisdom as expressed in text-books of the time.

The interests of accounting academics have changed over time. But this collection of works displays the heritage of the University of Sydney in scholarly research and advocacy of the 'decision usefulness' theme in accounting.

(Neil Wykes)
President, Accounting Foundation
University of Sydney

PREFACE

Evaluating and acting are every man's business. Each has his preferences, makes his guesses, and lays out his strategies for solving his problems. Within the social framework, his preferences and modes of acting are moderated by those of others. Knowledge of the physical and social environment is the foundation upon which he builds his expectations and chooses his behavior. No man, however, is his own sole source of knowledge. He depends on others to supply special kinds of knowledge which he requires from time to time. The knowledge yielded by accounting and accountants is one such special kind of knowledge, a kind which is individually and socially significant in societies where interpersonal dealings of great variety are effected by the use of money. In such societies the language of monetary signs is a social language, the most commonly used of all technical languages and only less universal than the vernacular. The object of this book is to consider the conditions under which, by means of this language, complex messages are generated which provide the basis for informed economic action.

Economists, social psychologists, political scientists, and organization theorists, in their several ways, are concerned with such a language system. But in spite of its universality, relatively little attention has been paid to accounting as a critical means of discovery and communication. Businessmen, financiers, investors, and public officials employ its products, but often with little concern for their own implication in its processes. A synthesis has been attempted therefore which recognizes a common element in the interests of all these groups and a singular orientation for the processes of accounting and the endeavors of accountants. Whether one is concerned with business behavior, the securities market, organizational communication, or public accountability, an adequate system of financial measurement and communication is either assumed or required. We have sought to make explicit the features of such a system under the basic conditions of human uncertainty and interdependence.

Inevitably, evaluations of future courses of action turn on conjectures about the future. But the choices we make also turn on

our beliefs about the environmental setting of our actions. These beliefs are likewise conjectures, hypotheses, or theories. Their conjectural character is often not recognized, for when the expected consequence of an action does not materialize the vagaries of circumstance are taken as the cause rather than the imperfection of our set of beliefs about the environment. Disappointment is assuaged by remedial action. In these circumstances our beliefs about the system in which we act may be flimsy, transient, and unstable; and our expectations of the future can be no more reliable than those beliefs. Into this complex, of beliefs about the system in which action is taken and beliefs about the future, is fed the facts of our present situation. But what we deem to be the facts of a situation are also determined by our beliefs about the system; what we deem to be facts are therefore also no more reliable, as premises of action, than our beliefs about the system.

Where the actions of men are recognized as members of a class of a recurrent series of actions having a particular common orientation, men have sought to obtain more reliable beliefs about the systems within which they act, and consequentially more reliable methods of getting at the facts which are uniquely pertinent to particular categories of action. This is the business of science. Its methods are exploratory, experimental, and self-critical. Its conclusions are general and are valued for their explanatory and predictive powers. On the ground that accounting is a process of discovery, of getting at the facts which are pertinent to economic categories of action, in this book we expound the view that it differs in no respect from other empirical sciences.

Accordingly, we have attempted to discipline ourselves by the same principles as have proved to be so fruitful in other fields. The view we take of the environment we believe to be based firmly on observable realities. Nevertheless, our conclusions, though stated positively, are not held dogmatically. We do offer general solutions to present problems, but we do not deny the possibility that changes in the cultural environment in which any particular solution is offered may lead to its supersession. For example, although many of the ideas incorporated in this book have been long and widely accepted, the particular setting they have been given would have been impossible but for the developments in the theories of organization, communication, and regulatory systems which have occurred in the quite recent past. We venture to

suggest at the end, perhaps with unbecoming immodesty, that the consequence may be a Copernican revolution in accounting.

The system presented is a lineal descendant of work begun some twenty years ago. The first published indication of direction was "Blueprint for a Theory of Accounting" (*Accounting Research*, 1955). A more comprehensive development was offered in *Towards a General Theory of Accounting* (1962). These and other exercises in the interval and, indeed, the present volume, are to be considered as stages in the growth of an idea (whether to maturity or senility the reader must decide). Some views once held with confidence have been modified, some rejected; others have been given new forms of expression which do not match forms previously used. These changes have been dictated by the search for a self-consistent vocabulary, and a self-consistent framework of ideas which is at the same time consistent with reality.

We would like to thank Professor William Cooper of the Carnegie Institute of Technology, Associate Professor Yuji Ijiri of Stanford University, and Professor Maurice Moonitz of the University of California, Berkeley, who read the manuscript and on whose recommendations and judgments our publishers have depended.

We also acknowledge the help of all who have moulded our views. To pay specific tribute however is neither fair nor possible. Those who have agreed with us have given encouragement; those who have disagreed have stimulated us. Friends in business, in government and in academia, at home and abroad, have given the benefit of their experience and knowledge. Students of diverse ages and maturities have forced us to clarify and restate our position. Authors many of whose names now elude us have shed light and shade, both necessary, on our problems. The work is a tribute to all but we lay it on the shoulders of none.

R. J. CHAMBERS