Rethinking accounting objectives— based on Conceptual Framework for Financial Reporting 2018

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Abstract. This paper begins by emphasizing the pivotal significance of studying accounting objectives, considering them as the logical starting point for the structure of accounting theory. It provides a broad overview of decades of research on the positioning of accounting objectives and conducts a detailed analysis of the accounting objectives expounded in the recent 2018 release of the "Conceptual Framework for Financial Reporting" by the International Accounting Standards Board (IASB). Through analysis, it uncovers contradictions between the characteristics of financial reporting outlined in this conceptual framework and the established accounting objectives. Moreover, it contends that the identified objectives are, in reality, elusive, presenting significant challenges to achieving the goals set by the IASB. Furthermore, it delves into how these accounting objectives prioritize the interests of investors and creditors, compelling accountants to provide valuation services for securities investors and distorting the essence of accounting. This prioritization, along with the resulting ranking, is argued to be incongruent with the realities of the Chinese context, adding complexity to the issues associated with accounting objectives.

Keywords: Accounting objectives; decision-usefulness view; international accounting standards.

1. Introduction

The accounting objective represents the foundational cornerstone of the accounting theoretical framework, exerting significant influence on both theoretical constructs and practical applications. This influence extends to the establishment of the theoretical underpinnings of the accounting discipline, the delineation of financial accounting concepts, and the formulation of accounting standards. Over the decades since the 1950s, extensive research on the positioning of accounting objectives has engendered a plethora of perspectives and prompted vigorous debates across various academic paradigms [1]. Despite considerable scholarly endeavors, challenges persist in achieving theoretical coherence, as evidenced by the ongoing discord among differing viewpoints [2]. Consequently, the positioning of accounting objectives remains a contentious and unresolved issue.

Among the plethora of research findings, two predominant assertions have garnered widespread acceptance within the accounting community in the United States since the 1970s: the stewardship view and the decision-usefulness view. These perspectives have been evident since the issuance of the Financial Accounting Standards Board (FASB)'s Statement of Financial Accounting Concepts No. 1, "Objectives of Financial Reporting," in November 1978, and have persisted through subsequent joint conceptual framework research endeavors with the International Accounting Standards Board (IASB) culminating in September 2010. Notably, the relationship between these perspectives has undergone subtle evolution over time.

In March 2018, the IASB released the final revised version of the "Conceptual Framework for Financial Reporting (2018)," wherein it proposed that the primary objective of general-purpose financial reporting (hereafter referred to as "accounting objectives") is to furnish financial information about the reporting entity. This information should facilitate decision-making for current and prospective investors, lenders, and other creditors regarding resource provision to the entity. Such decisions encompass transactions like buying, selling, or holding equity and debt instruments, extending loans or credit, and exercising voting rights or influencing management actions affecting resource utilization. Notably, this latest conceptual framework aligns more closely with the decision-usefulness view in positioning accounting objectives. It prioritizes information essential for investment and financing decisions while deeming details concerning management compensation, appointments, and dividends as comparatively less crucial for financial reporting. However, upon critical examination, this positioning may be perceived as contradictory and elusive, posing challenges to its practical realization. Moreover, given China's ongoing convergence of its domestic accounting standards with the International Financial Reporting Standards (IFRS) established by the IASB since January 1, 2007, vigilance regarding this positioning becomes imperative. Subsequent sections will offer a detailed analysis of these implications.

2. Analysis

2.1. Challenges in Attainment

Primarily, the fundamental characteristics of financial reporting as delineated within the conceptual framework established by the IASB are at odds with the defined accounting objectives, thus rendering the achievement of accounting objectives arduous. Upon examination of its conceptual framework, it becomes apparent that financial reporting, as outlined, embodies several features: (1) generality, implying that financial reports are not tailored to specific users, necessitating users to make appropriate "adjustments" based on their individual requirements when assimilating financial information for decision-making; (2) periodicity, indicating that financial reports disclose the financial status of the reporting entity over a predetermined period; (3) gratuity, allowing users to access financial reports freely and repeatedly. It is noteworthy that, in contrast, the interests of financial report providers are intrinsically linked to the financial report outcomes. However, they are unable to derive direct benefits from the readership of financial reports. This contradiction makes it challenging for information providers to be motivated to diligently meet the needs of users. (4) Non-independence, as posited in (3), the interests of financial report providers are closely intertwined with the financial report outcomes. Consequently, they may be motivated to manipulate financial statement data for personal gain. Therefore, the adequacy of the financial report information submitted by them to meet the needs of users should also be questioned.

However, the accounting objectives stipulated by the IASB assert that the information provided in financial reports should assist users in their decisions regarding "the buying, selling, or holding of equity and debt instruments," placing this information requirement in a primary position. However, in reality, the four characteristics summarized earlier render financial reporting incapable of fulfilling this requirement. This is because: (1) Individuals may engage in buying and selling equity and debt instruments for speculative or long-term value investment purposes, each requiring significantly different information. The "generality" of financial reporting makes it impossible for financial reports to simultaneously and fully meet the information needs of both types of investors; (2) Buying and selling equity instruments and debt instruments are high-frequency decisions, and the "periodicity" of financial reporting means that the information it provides is relatively lagging, thus making it difficult to meet the information needs of these high-frequency decisions; (3) The "gratuity" and "non-independence" of financial reporting also make it difficult for financial report providers to have the motivation to satisfy all the information needs of investors and creditors (in fact, the phenomenon of "management deliberately hiding unfavorable aspects of company development when disclosing company information to the public" is not uncommon). However, investors and creditors often hope to obtain all information about the company, regardless of its nature, in order to comprehensively and accurately assess the value of the company. Therefore, the "gratuity" and "non-independence" of financial reporting inevitably lead to the failure of this requirement.

Furthermore, besides the point that it contradicts the characteristics of financial reports and is difficult to achieve, the objective of decision usefulness is also illusory in practice. It seems to place the hope of "reliably predicting future securities prices" on accounting, yet it is well known that no discipline can accomplish this task. The price mechanism of financial assets depends more on the expectations of long and short positions among investors, and there is no discipline that can explain the factors influencing investor expectations [3]. The inherent illusion of accounting objectives also makes them difficult to achieve.

In conclusion, the characteristics of financial reporting render it fundamentally incapable of meeting the information needs of users as defined by the IASB for "the buying and selling of equity instruments and debt instruments." Investors and creditors may rely more on industry information, policy information, and analyst reports rather than financial reports when making such decisions. Moreover, the price mechanism of financial assets also makes the vision difficult to achieve. In this regard, the accounting objectives positioned by the IASB seem ethereal and unattainable.

2.2. Incompatible with the Chinese Context

In fact, based on the analysis above and the review of documents released by the IASB over the years, it is discernible that its positioning of accounting objectives is influenced by personal interests—placing the interests of investors and creditors at the forefront. The so-called decision-usefulness view appears to be an attempt to appease the financial analysis concepts of stock exchanges [3-5] (which is understandable since the IASB is a private accounting standards-setting body dominated by the U.S. securities industry and naturally should prioritize the interests of the securities industry [6]). It compels accounting to provide valuation services for securities investors, making accounting functions akin to securities analysis, thereby distorting the role of accounting (which should primarily serve strategic investors and management). This deviation from the original profession's ethos of public welfare and credibility is incongruous with China's expectations of accounting.

Additionally, prioritizing the decision needs of investors and creditors over those of public social interests such as tax authorities in the IASB's framework also contradicts the national conditions of China. It is widely known that in China, accounting often needs to meet the diverse information needs of enterprise management and national economic management, such as those of the State-owned Assets Supervision and Administration Commission for the supervision of the appreciation and preservation of state-owned assets and those of tax authorities for tax supervision purposes (in fact, accounting is the only management activity that can provide profit numbers for enterprises to pay taxes and distribute profits in accordance with the law). These are all important users of accounting information, and the State-owned Assets Supervision and Administration Commission, tax authorities in particular, emphasize the truthfulness, reliability, and completeness of accounting information. However, in order to uphold the interests of the securities industry, the IASB has undoubtedly overlooked the need for accounting information in national economic management. Furthermore, to achieve the goal of assisting securities investors in securities valuation, the IASB's advocacy of fair value measurement and impairment models in financial reporting (which also reflects the importance of establishing appropriate accounting objectives mentioned at the beginning) leads to the inclusion of a large amount of "unsubstantiated" records in the profit and loss statement. Profit data often requires extensive adjustments by relevant personnel before it can be used for tax declaration and profit distribution, undoubtedly increasing the assessment costs of the State-owned Assets Supervision and Administration Commission and tax authorities, as well as the operating costs of enterprises. From the above analysis, it can be inferred that the primary users and their information needs defined by the IASB do not align with China's situation. Therefore, when positioning accounting objectives, China needs to carefully consider the definition of primary users and their information needs, including government agencies, and when determining the information needs of users, consider whether such needs will significantly increase the operating costs of enterprises.

3. Conclusion

This paper begins by emphasizing the significance of studying accounting objectives as the logical starting point of the accounting theoretical framework. It then provides a brief overview of the research outcomes concerning the positioning of accounting objectives over the past few decades, followed by a detailed analysis of the accounting objectives elucidated in the recent release of the "Conceptual Framework for Financial Reporting (2018)" by the IASB.

Upon analysis, it is found that, firstly, the characteristics of financial reporting reflected in this conceptual framework are actually contradictory to the accounting objectives established. Additionally, the objectives themselves are illusory in practice, rendering the accounting objectives defined by the IASB challenging to achieve. Secondly, these accounting objectives essentially prioritize the interests of investors and creditors, compelling accounting to provide valuation services for securities investors, thereby distorting the behavior of accounting. Moreover, such prioritization is incongruent with the national conditions of China. The so-called accounting objectives are fraught with numerous problems.

Due to limitations in scope and time, this article primarily raises two key concerns regarding the accounting objectives set by the IASB. However, there are many other issues worthy of further exploration. As emphasized throughout, accounting objectives serve as the logical starting point of the accounting theoretical framework. Therefore, if they exhibit certain deficiencies, subsequent extensions warrant thorough investigation. In facing various theories and regulations in the future, it is essential to adopt a critical mindset and explore them pragmatically, rather than blindly accepting them. It is also imperative to assess their suitability to the national conditions of China, especially considering that many theories and regulations are imported concepts.

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