Federal Accounting Standards Advisory Board

December 2, 2004 [edited for posting to the World Wide Web on December 7, 2004]

TO: Members of FASAB

THROUGH: Wendy Comes, Executive Director

FROM: Robert Bramlett

SUBJECT: TAB A—Objectives--The advantage(s) of "GAAP" reporting

We have previously alluded to the concept of "comparative advantage" and have asked whether it might be used to help define the objectives of federal accounting standards. For this meeting, I was asked to address more specifically the comparative advantage(s) of "GAAP" reporting and some related topics. Limits of time and space mean that this memo can address only some of those topics. This memo is organized as follows:

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Background on Comparative Advantage

The concept of comparative advantage

Early economists developed the concept of "comparative advantage" (see Appendix I on page 22), but it has been borrowed, at least as a metaphor, by other disciplines. The term is sometimes misused or confused, e.g., with "absolute advantage."

Strictly speaking, perhaps we should focus more on "absolute advantages" than on "comparative advantages." If some other means exists more efficiently to accomplish a given function or objective that might be accomplished by accounting, it would seem reasonable for the Government to avail of that efficiency. National economies must compete as best they can, even if they have no areas of absolute advantage. Similarly, businesses and individuals (and groups of them such as trade associations and unions) will tend to seek employment where they can maximize the return to their efforts, which leads them to a focus on areas of comparative advantage.

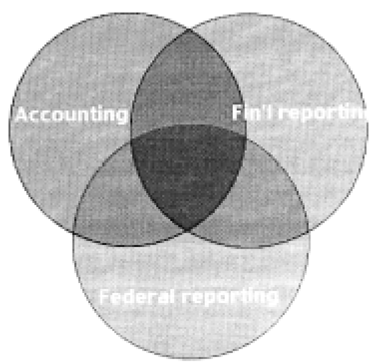
On the other hand—although individuals in a given organization or profession might object to changes that would disadvantage them—there is no essential need for the Government to persist in accomplishing certain functions or objectives (e.g., providing decision-useful information or assuring accountability and control) in a less efficient way if superior alternatives exist.

Even so, the term "comparative advantage" has a certain history in this context. With the caveat expressed in the preceding paragraphs, it may not be harmful to continue to use it in a general, nontechnical sense. Many people may have an intuitive understanding of the term that may not be technically precise, but it remains serviceable nevertheless. Alternatively, one might simply seek to identify and focus on relevant "advantages."

Early FASAB discussions on comparative advantage

SFFAC 1 does not actually use the term “comparative advantage,” but Jim Blum, an economist and member of FASAB from CBO, introduced the term during the deliberations that led to SFFAC 1. Federal financial accounting principles were at that time described as an “other comprehensive basis of accounting,” not as GAAP. Accordingly, the Board’s discussions focused on the objectives and (to the extent we availed of the concept) the comparative advantages of federal “financial reporting,” “financial accounting,” or “accounting.” “Financial accounting” was generally used as a term to distinguish FASAB’s domain from “budgetary accounting,” and was seen as a subset of “federal reporting.”[1]

Our early discussions did not always clearly distinguish whether we were focusing on (1) federal accounting, (2) federal financial reporting, or (3) federal reporting. One might portray this domain with a Venn diagram three partially overlapping circles like this:



It was my perception that some of the first Board members regarded FASAB’s area of concern as somewhat broader than is traditionally associated with FASB. The references to “systems and controls” and to reporting on performance in SFFAC 1 may support this perception.[2] In those days I sometimes addressed professional groups. I would describe FASAB as in some ways like FASB and GASB, but in other ways like a committee of the controllers in a huge conglomerate. Besides dealing external financial reporting *per se*, they were concerned with advising top management and the Board (Congress), coordinating among their separate agencies (for consolidation, control, transfer pricing, budgeting, etc.), designing information systems, etc.

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[1] Reflecting longstanding practice in the SGL and GAO’s “*title 2*,” federal accountants often distinguish “proprietary” accounts from “budgetary” accounts, both of which are found in an integrated accounting system. FASAB preferred to avoid references to specific accounts and funds in SFFAC 1.

[2] Some subsequent developments, such as the creation of the new category “Required Supplementary Stewardship Information,” also might be interpreted as consistent with a broader focus.

Even if my perception at the time was correct, it does not necessarily imply that current Board members would or should regard it as appropriate today. Things have changed, including the composition of the Board. GPRA greatly expanded on the limited references to performance reporting in the CFO Act, and FFMIA might be said to have addressed systems and controls, possibly reducing the need to expand FASAB's area of concern beyond financial reporting *per se*.

Cost information

Mr. Blum suggested that providing cost information was an important "comparative advantage" for FASAB to consider. Without necessarily using the term "comparative advantage," other members at that time also regarded the provision of cost information as a primary objective for FASAB's standards to achieve. A call for more and better cost information was also a common theme in the focus groups and interviews we conducted in our "users' needs" study. The idea appears extensively in connection with discussions of assessing "operating performance" in SFFAC 1.

Data and controls from the financial transaction processing system

Other members, without necessarily using the term "comparative advantage" pointed to other functions or facets of accounting that might be described with that phrase--or that might simply be regarded as an inherent or defining characteristic of "accounting" as they understood the word. Gerald Murphy suggested that a focus on information provided by, or derived from, the system used for processing financial transactions helped to distinguish FASAB's domain of concern from that of other functions, disciplines, and groups, e.g., economists. Other members agreed.[3]

A similar assumption about the nature of the data reported in financial statements is commonly cited as part of the justification or rationale for regulating accounting by means of standards. For example, one textbook says:

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[3] My perception was that, for some members, this implied a need for FASAB to be concerned to some extent with the financial systems and controls involved as well as the data. Testimony and comments at Congressional hearings prior to the CFO Act of 1990 evidence concern about systems and control; however, it is not necessarily the case that Congress expected FASAB or accounting standards to address these topics. Indeed, the 1990 Act did not mention FASAB. It did include other provisions, such as creation of the CFO position in each agency and the requirement for audit, which arguably might have been regarded as the vehicles for improved systems and controls.

> There is some reason to believe regulation costs are low because most of the information contained in financial reports is produced as a by-product of firms' accounting systems.[4]

A similar perspective may be inferred at many points in auditing standards published by the American Institute of Certified Public Accountants (AICPA), i.e., that the financial transaction accounting system plays an central, albeit not sufficient, role in preparing the financial statements. For example:

AU 319—Consideration of Internal Control in a Financial Statement Audit

> .47 The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures, whether automated or manual, and records established to initiate, record, process, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity. The quality of system-generated information affects management's ability to make appropriate decisions in controlling the entity's activities and to prepare reliable financial reports.

AU 326—Evidential Matter:

> .15 Evidential matter supporting the financial statements consists of the underlying accounting data and all corroborating information available to the auditor.
>
> .16 The books of original entry, the general and subsidiary ledgers, related accounting manuals, and records such as work sheets and spreadsheets supporting cost allocations, computations, and reconciliations all constitute evidence in support of the financial statements. These accounting data are often in electronic form. Accounting data alone cannot be considered sufficient support for financial statements; on the other hand, without adequate attention to the propriety and accuracy of the underlying accounting data, an opinion on financial statements would not be warranted.

AU 551—Reporting on Information Accompanying the Basic Financial Statements

> .03 The information covered by this section is presented outside the basic financial statements and is not considered necessary for presentation of financial position, results of operations, or cash flows in

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[4] *Accounting Theory: Conceptual Issues in a Political and Economic Environment*, sixth edition, page 116, by Harry Wolk, James Dodd, and Michael Tearney, c. 2004 Thomson Southwestern.

conformity with generally accepted accounting principles. Such information includes additional details or explanations of items in or related to the basic financial statements, consolidating information, historical summaries of items extracted from the basic financial statements, statistical data, and other material, some of which may be from sources outside the accounting system or outside the entity.

Impact of an official report independent of the budget

Elmer Staats, FASAB's first Chairman, emphasized the role of federal accounting standards as a means of mandating the reporting of information independent of the Budget. The financial statements could report on transactions, entities, or elements not included in the Budget, or provide a different perspective on matters that are included in the Budget. In this way the financial report could complement the Budget. In conjunction with this, he noted the potential impact of an official financial report on public perceptions and debates. Our users' need study found little evidence of demand from outside the Government for such a report (e.g., to provide information not currently available), but one reporter did suggest that if reporters learned to expect such a report at a given time each year, and if they learned that they could "get a story out of it," they might pay attention to it.

This factor could imply a need to include certain information in the financial report, but it could also imply that it would be appropriate to exclude other information from the official, audited, financial statements. For example, Mr. Staats supported the practice at that time of reporting certain experimental "generational accounting" displays in the *Analytical Perspectives* volume of the Budget, where it was available to analysts, academics, and policy makers, but he did not think it appropriate to include that information—at least at its then current stage of development—in the audited financial statements.[5]

Federal accounting standards were not then called "GAAP," but today that acronym might be used as a label for this kind of official, independent report. Nonaccountants probably perceive the term "generally accepted accounting principles," like the auditor's opinion, as a general assurance of something, which may enhance the impact among such users, if they exist. Some aspects of what "GAAP" may imply—which may in turn imply other advantages beyond those discussed to this point—will be discussed later.

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[5] Some observers believe that advances in this type of reporting have been made since that time. Even if one believes that advances have been made, however, it would not necessarily follow that one would regard it as appropriate to include such information in the basic financial statements. For an example of this kind of information, see *Fiscal and Generational Imbalances: New Budget Measures for New Budget Priorities,* by Jagadeesh Gokhale and Kent Smetters. (http://www.aei.org/news/newsID.19002,filter./news_detail.asp)

Audited information

When FASAB was created, it was understood by everyone involved to be the mechanism by which the executive and congressional branches of the Government could work out agreement on standards that would actually be followed in preparing the audited financial statements required by the CFO Act. Both GAO and OMB could cite statutory authority to establish federal accounting standards, but neither acting alone could actually do so in a way that would be perceived as acceptable to both the executive and legislative branches. The Board thus had an advantage over OMB or GAO acting independently to accomplish this function. Part of the Board's function, therefore, was to make judgments about the cost and benefit of auditing, as well as preparing and reporting, the information in the financial statements required by federal accounting standards

References in recent accounting literature

Using certain online resources, I made a limited search for references to the concept of "comparative advantage" in accounting literature. This method does not cover books and older published articles that are not included in the computerized indexes. Indeed, my search was not necessarily exhaustive even with respect to digitized references. Within that limited universe, I found relatively few references to the concept that were obviously directly relevant to this discussion.

There were several references to the comparative advantage of academic accountants (what topics to research or research techniques to employ). Some references were relevant to a standard setter's concerns, but dealt with specialized issues[6] or to the comparative advantages of individual preparers or users of financial statements. Of course, such references are not irrelevant to the standard-setter, since it is assumed that

[6] One such article is "Operating Cash Flow Formats: Does Format Influence Decisions?" by Thomas P. Klammer and Sarah A. Reed, *Journal of Accounting and Public Policy*, Fall 1990. While it describes a research approach that might be quite relevant to some issues we face in other projects, its reference to "comparative advantage" seems not directly applicable to the topic of this memo. Board members may, however, infer more than I did in that regard. The authors report: "An experiment that investigated the comparative advantages of 2 cash flow statement formats is presented. Bank analysts were asked to: 1. study a set of financial statements, 2. answer a series of questions about the cash flows of an entity, and 3. make a decision whether to grant the company's loan request. The results show that there was less variability in the size of the loans that would be granted when analysts received the direct method, as opposed to the indirect method, statement of cash flows. These findings suggest that the direct method of presenting cash flow information may be preferable to the more commonly used indirect format."

making certain information public enhances social welfare, e.g., by permitting better choices about the use of resources. This can be discussed in terms of such information being a public good, or in terms of reducing "information asymmetry."

Reducing information asymmetry and reporting bad news

The most extensive of the references to comparative advantage in our current context appears in William Beaver's summary, previously provided to the Board, of the report to FASB titled *Future Events and Financial Reporting*. He suggests:

> From an informational perspective, the comparative advantage of financial statements arises in providing information that is not otherwise publicly available to users. . . . Much of the accounting research in the past twenty years has adopted an informational perspective. The heart of the research is that an information asymmetry potentially exists between the preparer of the accounting data and the user of the accounting data. Concern over this information asymmetry is what leads to the stewardship reporting responsibility of management and to a demand for monitoring of the reporting system by independent auditors. . . .
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> The notion of comparative advantage can be applied to the qualitative criteria discussed in Concepts Statement No. 2, such as reliability. . . . If one understands the nature of concern over the strategic incentives with respect to reporting bad news versus good news, then a conservatism rule may . . . represent a "consistent" treatment. In other words, the financial reporting system has a comparative advantage in reporting bad news versus good news relative to alternative information sources . . . . However, from a nonstrategic view, conservatism might appear to be quite inconsistent.[7]

It does not seem to require a great leap of faith or reason to conclude that reducing information asymmetry and reporting bad news may sometimes enhance social welfare, but there may be some aspects of this process worth further analysis. One might note, for example, that a comparative advantage in reporting bad news depends to some extent on independence, a topic to which we will return. Some degree of independence is regarded as vital for agents like the GAO, IGs, the news media, Congress vis-à-vis the Executive, et al.

One might also note that information regarding the Government and information about corporations is disseminated and used in different ways. For example, the Government of the United States is designed in many respects to encourage the free flow of

[7] "Problems and Paradoxes in the Financial Reporting of Future Events," William H. Beaver, *Accounting Horizons*, December 1991.

information to citizens or their agents. The distinction between private and public information is different than is the case today for corporations. (There was a time, in the early development of public companies in England, when any shareholder had a right to inspect the detailed transactions of the corporation. Those days have long passed. The shareholder must rely on agents, representatives, and intermediaries such as Board members and auditors. The same is true in the Government, but the number of agents, representatives and intermediaries is greater. Arguably there are also important differences in the power, independence, and incentives of some of the agents, representatives, and intermediaries in the different domains.)

Much of the analysis of how information is disseminated and used in government is found in the economics and political science literatures, including the category sometimes called "public choice."[8] For example, in *An Economic Theory of Democracy*, Anthony Downs classifies "the various degrees of attention which government will give to a citizen's desires" in five situations. In most cases listed, the government ignores the citizen's desires, but:

> If government knows that a citizen's income is affected and also knows that the citizen is aware of this, it gives full consideration to the impact of its policies upon him. Even in this case, however, it may still tactically ignore his wishes in an attempt to please other voters. . . . Information thus derives value from the influence it enables its possessors to wield in the formation of government policy. [*An Economic Theory of Democracy*, Harper & Row, 1957, Pages 248-249]

Accordingly, making available to the public information about the incidence of costs and benefits of governmental action may be a necessary precondition, though not a sufficient one, for a government to be responsive to the wishes of its citizens. However:

> In general, it is irrational [for an individual citizen] to be politically well-informed because the low returns from data simply do not justify their cost in time and other scarce resources. [Page 259]

Thus information is more likely to be used by intermediaries and organized groups than by citizens individually.

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[8] Within the accounting literature, particularly the managerial accounting literature, one finds somewhat analogous issues discussed in terms of agent-principal relationships, organizational governance and control, managerial behavior and incentives, etc. For example, "Centralization Versus Delegation and the Value of Communication," by Nahum Melumad, Stefan Reichelstein, and Alison Kirby, *Journal of Accounting Research*, 1987, Vol. 25.

Historical information

Authors of some papers asserted or suggested that accounting's comparative advantage and proper role lies in reporting historical cost information. For example,

> Eliminating questionable analytical techniques from EPS calculations would allow accountants to concentrate on providing historical information, the activity in which they enjoy a comparative advantage. Financial statement users would benefit from having access to clearly defined, interpretable statistics, such as basic EPS, and the raw data needed to perform additional analyses.[9]

And, from another author:

> The discounted present value concept plays an important part in accounting theory, often being viewed as the ideal concept of value. However, there is a school of thought which, while recognizing the importance of the concept in decision making, argues that the primary function of financial accounting is in the assessment of achievements. It is also argued that this indicates a need for ex post measures which are conceptually distinct from discounted present value. The results of this study suggest that accountants do not have a comparative advantage in the determination of discounted present value for investors and that this task should be left to the stock market.[10]

Even if one accepts such conclusions as valid for financial reports intended for the capital market, perhaps some would argue that there is more need for federal standards setters to promulgate standards that mandate reports going beyond "clearly defined, interpretable statistics." For example, if individual citizens are an intended audience, valid interpretation and analysis may be necessary in the report itself to provide reasonable assurance that the signal received is the signal intended to be sent. On the other hand, some may argue that the conclusion is equally valid for federal financial reporting because individual citizens, like individual investors, rely on analysts and information intermediaries.

Stewardship, contracting, regulation, and other functions

Much of the academic literature focuses on reporting to capital markets, a function apparently not highly relevant for U.S. Government accounting, at least at this time.

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[9] "Relieving the Burden of EPS Reporting," Hogan, Thomas Jeffery, Mautz, R. David Jr., The CPA Journal, Mar. 1991.
[10] "A Note on the Discounted Present Value Concept," by K.V. Peasnell, *The Accounting Review*, January 1977.

[*Note added on December 7, 2004, for WWW version*: Some may believe that recent developments suggest that this could change. For example, see "Some Question U.S. Bond Rating" by Aaron Lucchetti, Wall Street Journal, December 7, 2004; Page C1.]

R.W. Holthausen and R.L. Watts suggest that accounting serves a variety of other purposes. Indeed, according to these authors, even for profit-seeking entities, GAAP is not primarily about valuing equities.

> 4. Value relevance and GAAP
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> This section concludes that direct equity valuation is not a primary determinant of GAAP as observed in practice. Moreover, while accounting is undoubtedly an input to equity valuation, that use does not dominate other factors determining observed practice. The income statement and balance sheet are asked to serve multiple functions including non-valuation functions. Those non-valuation functions have important implications for the form and content of those statements. Thus, observed characteristics of practice are consistent with the views expressed in the statements of the FASB . . . that indicate a role for uses other than equity valuation.
>
> We discuss the influence of four factors on the contents of financial statements: contracting (including stewardship), taxes, regulation and litigation. This allows us to assess, at least in part, the importance of the equity valuation role in accounting relative to these four other factors. Developing a theory that explains all the factors important for the determination of accounting standards and the conditions under which they are more or less powerful, would be a substantive addition to the accounting literature.[11]

The four factors they list may not be equally relevant for federal accounting; indeed, some of them may be no more relevant than equity valuation, outside federal business-type activities. "Contracting," and "regulation" are typically dealt with by budgetary accounting, while taxes and litigation based on federal GAAP seem not to arise. (There may be a greater role for stewardship or monitoring management with federal financial accounting as practice evolves.) Even so, their analysis may offer some insights into where federal accountants may find some sort of an advantage, e.g., with respect to verifiability, a factor they emphasize. (This may be particularly important to the objective of accountability, which we discussed in August.)

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[11] "The relevance of the value-relevance literature for financial accounting standard setting," by Robert W. Holthausen and Ross L. Watts, *Journal of Accounting and Economics* 31 (2001) 3-75.
http://www.mgt.buffalo.edu/courses/mga/618/f1a/Holthausen%20and%20Watts.pdf

Comparative Advantage(s) of "GAAP" per se

We have already noted (page 7) that when FASAB was created it was perceived as the mechanism or forum by which the executive and congressional branches of the Government could, for the first time, work out agreement on standards that would actually be followed in preparing the audited financial statements required by the CFO Act. The Board thus had an advantage over OMB or GAO acting independently to accomplish this function. But this advantage arose before AICPA granted "GAAP" status to federal accounting principles. It is therefore an advantage of FASAB, but not of GAAP *per se.* Similarly, the other possible advantages discussed in the first section of this memo are not limited to GAAP financial statements *per se*, but relate to accounting or financial reporting more generally.

It has been suggested that "comparative advantage" may be found in special characteristics or attributes of "GAAP financial statements" *per se*. As far as AICPA is concerned, it controls the phrase "generally accepted accounting principles." Before the SEC was created, the accounting profession defined the term in a rather vague way; it reflected the judgment of the individual accountant in light of his understanding of acceptable practice. Once the SEC had legal authority to determine accounting standards for SEC registrants, the SEC delegated this function to the accounting profession. The profession, operating through a succession of committees and boards controlled by AICPA, gradually codified more extensive rules to define "GAAP." After FASB was created, AICPA's influence in setting accounting standards was greatly reduced, but it continued to assert that it alone could award the label "generally accepted accounting principles."

Characteristics of users' perceptions

One can ask whether the fact that this label has been awarded by AICPA constitutes a comparative advantage. Probably most citizens do not know of AICPA's role. For those who do, it is not clear whether—after Enron and similar scandals—the imprimatur of the trade group adds great credibility. On the other hand, the ritualistic use of the words "generally accepted accounting principles" probably implies to many users some vague assurance of probity or soundness, akin to a "Good Housekeeping Seal of Approval." This could be regarded as an enhancement of the kind of comparative advantage discussed on page 6 under the heading "Impact of an official report independent of the budget."

Characteristics of information

It also has been suggested that GAAP reporting is special—and thereby has an advantage—due to certain characteristics of the information in GAAP reports. FASB discusses qualitative characteristics of information in CON 2 (see Appendix IV on page

28). It should be noted that FASAB's Mission Statement (page 30) identifies three "primary characteristics": understandability, relevance, and reliability.

Understandability

Presumably the authors of the Mission Statement expected that FASAB should be concerned with understandability of reports prepared in conformity with the standards it developed. It is not necessarily obvious that GAAP information has a comparative advantage in this regard, however. Perhaps the due process procedures followed by FASAB could reasonably be expected to assure understandability. If so, that might be discussed as a characteristic of the process rather than of the information itself. The next section of this memo addresses the process of promulgating GAAP.

Relevance

FASB identifies "relevance" as one of the two primary characteristics necessary to make accounting information useful for decision making (the other being "reliability.") To determine whether a given datum is relevant to a decision would seem to require specifying the decision maker/model contemplated. In some cases, this has been done explicitly. For example, when Congress passed the Credit Reform Act, the focus was on decisions by public officials about whether to extend credit or guarantee programs. The objective of the Act was to create a "level playing field" for these programs in the Budget. FASAB simply followed the lead of Congress when FASAB deliberated SFFAS 2. In some other cases, it may not be entirely clear what decision maker/model is contemplated when people assert that information is—or is not—relevant.

It is not necessarily obvious that GAAP information has a comparative advantage regarding relevance. Perhaps the due process procedures followed by FASAB could reasonably be expected to assure relevance. If so, that might be discussed as a characteristic of the process rather than of the information itself. The next section of this memo addresses the process of promulgating GAAP.

Reliability

FASB identifies "reliability" as one of the two primary characteristics necessary to make accounting information useful for decision making. It is not necessarily obvious that GAAP information has a comparative advantage regarding reliability. Perhaps the due process procedures followed by FASAB could reasonably be expected to provide some assurance of reliability, and thereby provide a comparative advantage. Beyond that, however, the fact that financial statements are audited is widely perceived to impart some degree of reliability.

Neutrality

It has been suggested that GAAP reporting is special—and therefore has an advantage for some purposes—because it is neutral. FASB's Statement of Financial Accounting Concepts 2, *Qualitative Characteristics*, defines "neutrality" this way:

> Absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior.

For more of FASB's discussion on neutrality, see page **Error! Bookmark not defined.**.

FASAB included in SFFAC 1 the qualitative characteristics listed by FASB in CON 2, except for neutrality. FASAB's initial members agreed that the standard setting process should be a "thoughtful, open, neutral, and fair deliberative process" as is called for by FASAB's Mission Statement but some members found problematic the assertion that the information *per se* could be neutral.

For me, the idea that information (rather than process) can be described as neutral implies, or depends on, some kind of "correspondence" understanding of financial reporting. If accounting numbers measure an empirically-verifiable reality, if the accountant measures assets and liabilities much as one might use a yardstick to measure a piece of lumber or a scale to weigh a pound of nails, then measurement, if accurate, can be said to be unbiased or neutral. Reporting the result of the measurement can be said to "faithfully represent" or "fairly present" "reality."

FASB uses an analogy with cartography to discuss the correspondence between financial statements and the world:

> 24. An analogy with cartography has been used to convey some of the characteristics of financial reporting, and it may be useful here. A map represents the geographical features of the mapped area by using symbols bearing no resemblance to the actual countryside, yet they communicate a great deal of information about it. The captions and numbers in financial statements present a "picture" of a business enterprise and many of its external and internal relationships more rigorously—more informatively, in fact—than a simple description of it. There are, admittedly, important differences between geography and economic activity and, therefore, between maps and financial statements. But the similarities may, nevertheless, be illuminating.
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> 25. A "general purpose" map that tried to be "all purpose" would be unintelligible, once information about political boundaries,

communications, physical features, geological structure, climate, economic activity, ethnic groupings, and all the other things that mapmakers can map were put on it. Even on a so-called general purpose map, therefore, the cartographer has to select the data to be presented. The cartographer, in fact, has to decide to serve some purposes and neglect others. The fact is that all maps are really special purpose maps, but some are more specialized than others. And so are financial statements. Some of the criticisms of financial statements derive from a failure to understand that even a general purpose statement can be relevant to and can, therefore, serve only a limited number of its users' needs.

26. The objectives focus financial reporting on a particular kind of economic decision—committing (or continuing to commit) cash or other resources to a business enterprise with expectation of future compensation or return, usually in cash but sometimes in other goods or services. Suppliers, lenders, employees, owners, and, to a lesser extent, customers commonly make decisions of that kind, and managers continually make them about an enterprise's resources. Concepts Statement 1 uses investment and credit decisions as prototypes of the kind of decisions on which financial reporting focuses. Nevertheless, as just noted, the Board, in developing the qualities in this Statement, must be concerned with groups of users of financial information who have generally similar needs. Those qualities do not necessarily fit all users' needs equally well.

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63. Representational faithfulness is correspondence or agreement between a measure or description and the phenomenon it purports to represent. In accounting, the phenomena to be represented are economic resources and obligations and the transactions and events that change those resources and obligations.[footnote omitted]

64. Clearly, much depends on the meaning of the words "purports to represent" in the preceding paragraphs. Sometimes, but rarely, information is unreliable because of simple misrepresentation. Receivables, for example, may misrepresent large sums as collectible that, in fact, are uncollectible. Unreliability of that kind may not be easy to detect, but once detected its nature is not open to argument. More subtle is the information conveyed by an item such as "goodwill." Does a balance sheet that shows goodwill as an asset purport to represent the company as having no goodwill except what is shown? An uninformed reader may well

> think so, while one who is familiar with present generally accepted accounting principles will know that nonpurchased goodwill is not included. The discussion of reliability in this Statement assumes a reasonably informed user (paragraphs 36-41), for example, one who understands that the information provided by financial reporting often results from approximate, rather than exact, measures involving numerous estimates, classifications, summarizations, judgments, and allocations. The following paragraphs elaborate on and illustrate the concept of representational faithfulness used in this Statement, including the considerations noted in this and the preceding paragraphs.

Some accountants find problematic the analogy with cartography, and, more fundamentally, the idea of correspondence. Robert Sterling is an example. He describes a small "experiment" he conducted to demonstrate what may well the central theme of his career:

> Usually one designs an empirical test for the purpose of finding out if a proposition is *either* true or false, that is, whether some set of symbols does or does not correspond to phenomena. This case is different . . . the ultimate purpose is to try to explain that accounting numerals are *neither* true nor false, because there are no phenomena to examine to determine whether there is or is not a correspondence. Accountants tend to think of accounting as dealing with the most concrete reality but I think they suffer from what is called "maya" in Eastern philosophy[1]—the illusion that numerals *are* reality as opposed to numerals *corresponding to* or *representing* reality. Despite the widespread belief to the contrary among accountants, it is fairly easy to demonstrate that there are no phenomena that correspond to most of the numerals that appear on financial statements.[12]

In footnote number 1 in the passage cited, Sterling says:

> …The map metaphor that is often used in accounting to explain representational faithfulness is also often used in science to explain maya. Ziman…writes of the "vulgar [common] fallacy—the tendency to conflate scientific knowledge with the material reality that it purports to describe." Capra…succinctly defines it as follows: "Maya is the illusion of taking these concepts for reality, of confusing the map with the territory."… Boulding…employs the same metaphor…"We would be foolish to try to go for a walk across a map, but a map may be very helpful if we are going for a walk."

Cartographers understand that the unavoidable process of selection of attributes and projection used in making a map introduces the potential for intentional or unintentional

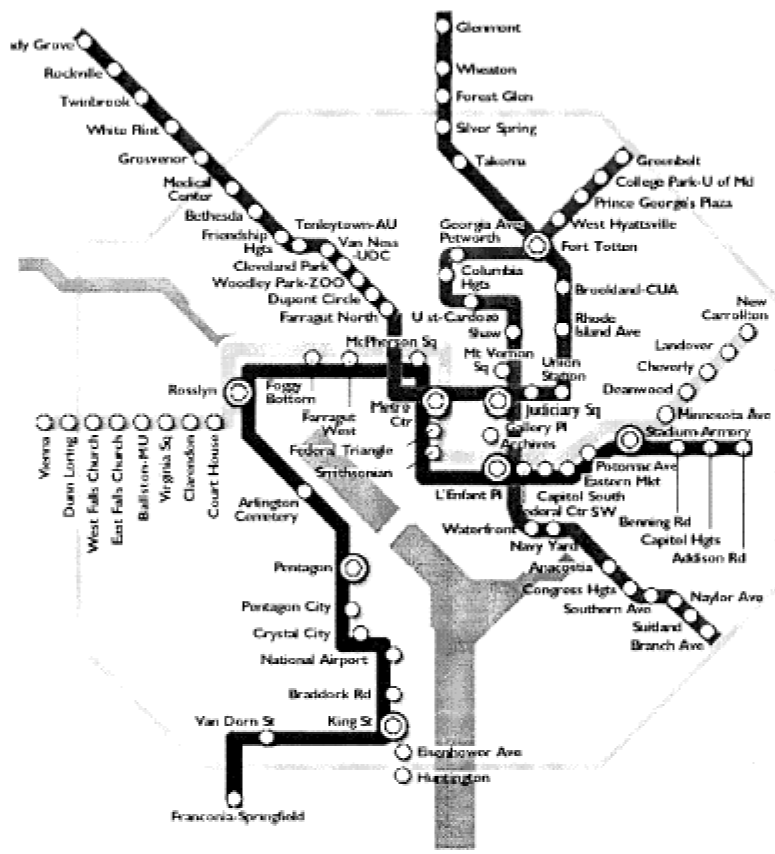
[12] "Confessions of a Failed Empiricist," by Robert R. Sterling, *Advances in Accounting,* 1988, Volume 6, page 5.

bias. Regardless of the choices made, the map will shape the mental image people have of the territory in ways that influence decisions (sometimes unconsciously).

It may be true that "a map may be very helpful if we are going for a walk," but a map like the one below may be misleading for that purpose. On the other hand, such a map can be very helpful indeed for the tourist trying to negotiate Washington's subway system. The map shows the relationships that are most relevant for that purpose, and does so in a concise way that is easy to understand. The attribute or attributes of a given territory that are relevant to a decision depends on the purpose that is contemplated.

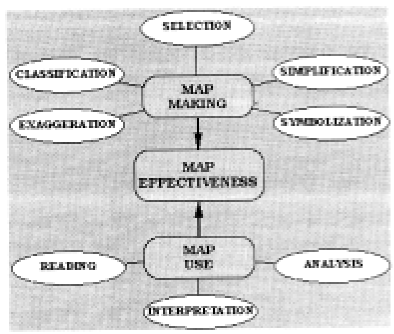
For Peter L'Enfant's purposes, a topographic map was important. For the real estate developer, a map showing legal mets and bounds is useful. Different kinds of maps can be "representationally faithful" in that they correspond to certain phenomena, but they can look very different, and may even be misleading for other purposes. (A topical and revealing example is discussed at http://www-personal.umich.edu/~mejn/election/.)

One problem confronting the standard setter, and indeed decision-makers in general, is that familiar maps can become powerful frames that shape our perceptions of reality, and thus our decisions, regardless of whether the frame is appropriate for a given decision.



As some academic accountants put it recently, " . . . judgments may be biased if decision-makers' internal data representations (knowledge stored in memory) are not suited to the task they are performing."[13]

From a cartographic perspective, map effectiveness must be assessed for a particular purpose, and is a function of several variables. These include choices or actions by the mapmaker, such as selection, classification, exaggeration, simplification and symbolization of attributes. They also include actions by the user, such as reading, interpretation, and analysis.



Source: http://eratos.erin.utoronto.ca/fcs/TANI/map_2.html

Some would say that if financial statements are maps, they are rather curious maps. They focus mainly on aspects of reality that can be expressed in monetary terms (though accounting need not be so limited. And they imply (or at least the tendency these days is to infer) that the summation of those monetary attributes (in the form of net assets or net cost, for example) is meaningful. This has not always been the case, perhaps. We are told:

> British accountants had no concept of a balance-sheet equation until the late eighteenth century and hence had little need until well into the nineteenth century for generic words for the items they placed on the debit and credit sides of their balance-sheets or balance accounts. Mepham (1988, Glossary), writing of Scottish accounting in the eighteenth century, observes that it is difficult to imagine how an accounting text could be written without using the term "assets" or a synonym but illustrates from Gordon (1766, p. 422) how it was managed. Gordon refers instead to an "inventory of the money, effects, and debts belonging to [the trader]", using a list rather than one word.
>
> Those who before the nineteenth century tried to conceive of a balance-sheet or accounting equation had some difficulty in finding the words to do it with. The words they possessed described accounting processes rather than accounting outputs. A ledger was opened by taking an inventory, opening an account for every item and debiting or crediting all accounts to "stock account". A ledger was closed by transferring all debit and credit balances to a "balance account". A new ledger was opened by opening a new

[13] Theresa Libby, Steven E. Salterio, and Alan Webb, "The Balanced Scorecard: The Effects of Assurance and Process Accountability on Managerial Judgment," *The Accounting Review*, Vol. 79 No. 4, Oct. 2004, pp. 1084.

balance account and debiting or crediting individual accounts. No words existed to describe the accounts which collectively offset the balance on the stock account.[14]

Thus bookkeepers could operate without even the concepts of "assets" as we know it, much less (presumably) the idea that an abstraction like "financial position" was meaningful.

Some residue of this was still in evidence in APBO 4, which reflected accounting theory for American practitioners around the time FASB was created. It was easy to criticize. As F.J.O. Ryan and Philip L. Defliese, the last chairman of the APB stated:

> By what feat of semantic legerdemain can a balance sheet, consisting of a conglomeration of amounts arrived at on the basis of cost or a valuation other than cost, each referable to numerous and unspecified points of time, be said to give shareholders, or any other group for that matter, a true and fair view of the state of affairs of the company as at the end of the period to which it relates? [15]
>
> * * * * * * * *
>
> The auditors' familiar imprimatur of the balance sheet—that it 'presents fairly the financial position'—would be a flagrant lie if it were not for the added reassuring qualifier, 'inconformity with generally accepted accounting principles.' [16]

FASB asserts the need for representational faithfulness in financial reporting. It is difficult to contest FASB's logic on its own terms. But if, as Sterling says, many "accounting numerals are ***neither*** true nor false, because there are no phenomena to examine to determine whether there is or is not a correspondence," then to that extent the idea that financial information *per se* can be neutral in some absolute or empirical sense may be questionable. Instead, we may need to accept the idea (which Sterling regretfully asserts is accepted by many accountants) that accounting is to some extent a "politico-legal system."

This would be consistent with the observation that debate about some accounting issues seems difficult, if not impossible, to resolve except by recourse to the intuitions and preferences of a defined set of individuals; a different set may reach different conclusions. It would help to explain the "virtually endless argumentation and inability

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[14] R. H. Parker, "Finding English Words to Talk About Accounting Concepts," *Accounting, Auditing, and Accountability Journal*, Bradford: 1994. Vol. 7, Iss. 2; pg. 70.
[15] F.J.O.Ryan, "A True ad Fair View," Abacus, December 1967, p. 97. As quoted by Paul Rosenfield and Leonard Lorensen, "Auditors' Responsibilities and the Audit Report," *Journal of Accountancy*, September 1974, page 75.
[16] Philip L. Defliese, The Objectives of Financial Accounting (New York; Coopers and Lybrand, 1973), p.6. As quoted by Rosenfield and Lorensen.

to resolve issues" observed by a committee of the American Accounting Association.[17] It would be consistent as well with the metaphysical tone such debates sometimes assume.[18]

Put another way, simple notions of "correspondence" may not be sufficient to capture all that financial reporting (much less accounting) does. In reflecting on this, two academic accountants concluded that objectives like "representational faithfulness" or "presenting fairly" economic reality may provide some kind of intuitive guide (my term) or "meta rule" (their term) for standard setters, but cannot be defined and pursued in a way that would permit preparers and auditors to detect when a departure from the rules selected by the standard setter would be justified:

> The concept of 'representational faithfulness' is related to notions such as financial statements 'giving a true and fair view' or 'presenting fairly', which form a key part of auditors' opinion statements, and to 'creative accounting'. These considerations lead to some deep conceptual issues concerning the relationship between financial reporting and its objects. We argue that it is mistaken to consider this relationship as one of 'correspondence'. It is a more subtle, reflexive relationship which needs to be explicated if both the power and the fragility of accounting and financial reporting are to be properly understood. A related issue with which accounting standard-setters are confronted is exemplified in IAS 1, namely the possibility that 'compliance with a Standard would be misleading, and . . . therefore departure from a requirement is necessary to achieve a fair presentation' (IASC, 1997 para. 13). This issue is sometimes referred to as the 'true and fair override' (TFO), whereby a guiding principle, or higher-order rule (*meta-rule*), is invoked to justify non-application of a lower-order rule. The issue of the TFO is related to that of representational faithfulness (RF) mentioned above because a standard justification given for the TFO implies 'correspondence' between financial reporting and what it seeks to represent. We argue that if the characterization of the relationship between financial reporting and its objects as one of 'correspondence' is rejected, justification of the TFO is problematic. In other words, while such a meta-rule has a key role to play as a guiding principle, to use it as an 'override' raises serious philosophical problems, as well as potential problems of preparer opportunism.[19]

Needless to say, not all accountants agree with this conclusion; argumentation continues on this, as on other matters.

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[17] *Statement on Accounting Theory and Theory Acceptance*, Committee on Concepts and Standards for External Financial Reports, American Accounting Assoc. 1977, page 1.
[18] It would also explain the profound truth of something Ken Schermann, a member of GASB's staff, told me when I interviewed there years ago: "the great thing about being a standard setter is that you can't be wrong."
[19] David Alexander and Simon Archer, "On economic reality, representational faithfulness and the 'true and fair override,' *Accounting And Business Research*, Vol 33. No. 1, 2003.

Characteristics of process and structure

Neutrality, it has been argued, may exist as much or more as a matter of process than as an inherent characteristic of information. The ability to convey "bad news," it has been noted, depends in large part on independence. And if accounting is, at least in part, a "politico-legal system," the details of the process and structure (including the selection of individual Board members) become important determinants of the outputs, and presumably of the impacts of those outputs.

The Board's structure and procedures are designed to enhance independence, and to provide a "thoughtful, open, neutral, and fair deliberative process." Probably most citizens have no idea the Board exists, much less what its structure and procedures may entail, but for the limited number who do know, these features probably provide some comparative advantage in the form of greater credibility.

Questions for discussion

1. Does the concept of "comparative advantage" help Board members achieve their objectives for the objectives project?

2. If so, in what ways? What ideas or aspects would Board members like to see developed more formally? Members may wish to consider:

   a. Understandability?
   b. Relevance?
   c. Reliability?
   d. Neutrality of information per se?
   e. Implications of/for representational faithfulness?
   f. Neutrality of process?
   g. Independence?
   h. Historical information?
   i. Bad news?
   j. Information asymmetry? If so, what asymmetries?
   k. Cost information
   l. Financial transaction data
   m. Financial transaction systems and controls
   n. Audit
   o. Verifiability
   p. Designation as GAAP
   q. Other factors

3. If not, what alternative means would Members prefer to accomplish their objectives for the project?

Appendix I: The Theory of Comparative Advantage

Excerpt from *The Theory of Comparative Advantage – Overview* by Steven Suranovic
http://internationalecon.com/v1.0/ch40/40c000.html

> A country is said to have a comparative advantage in the production of a good (say cloth) if it can produce cloth at a lower opportunity cost than another country. The opportunity cost of cloth production is defined as the amount of wine that must be given up in order to produce one more unit of cloth. Thus England would have the comparative advantage in cloth production relative to Portugal if it must give up less wine to produce another unit of cloth than the amount of wine that Portugal would have to give up to produce another unit of cloth.
>
> All in all, this condition is rather confusing. Suffice it to say, that it is quite possible, indeed likely, that although England may be less productive in producing both goods relative to Portugal, it will nonetheless have a comparative advantage in the production of one of the two goods. Indeed there is only one circumstance in which England would not have a comparative advantage in either good, and in this case Portugal also would not have a comparative advantage in either good. In other words, either each country has the comparative advantage in one of the two goods or neither country has a comparative advantage in anything.
>
> Another way to define comparative advantage is by comparing productivities across industries and countries. Thus suppose, as before, that Portugal is more productive than England in the production of both cloth and wine. If Portugal is twice as productive in cloth production relative to England but three times as productive in wine, then Portugal's comparative advantage is in wine, the good in which its productivity advantage is greatest. Similarly, England's comparative advantage good is cloth, the good in which its productivity disadvantage is least. This implies that to benefit from specialization and free trade, Portugal should specialize and trade the good in which it is "most best" at producing, while England should specialize and trade the good in which it is "least worse" at producing.
>
> Note that trade based on comparative does not contradict Adam Smith's notion of advantageous trade based on absolute advantage. If as in Smith's example, England were more productive in cloth production and Portugal were more productive in wine, then by we would say that England has an absolute advantage in cloth production while Portugal has an absolute advantage in wine. If we calculated comparative advantages, then England would also have the comparative advantage in cloth and Portugal would have the comparative advantage in wine. In this case, gains from trade could be realized if both countries specialized in their comparative, and absolute, advantage goods. Advantageous trade based on comparative advantage, then, covers a larger set of circumstances while still including the case of absolute advantage and hence is a more general theory.

Alternatively, see: http://en.wikipedia.org/wiki/Comparative_advantage

Appendix II: Excerpts from August 12, 2004 Board memo

* * *

Narrowing down by focusing on comparative advantage

Narrowing down by focusing on comparative advantages is an approach we have discussed before. One could simply assert that the lower left quadrant corresponds to the relevant comparative advantages, but it may be possible to say more on this topic. This idea is related to the next major topic, reliance on "users' needs versus accountability" to define federal accounting standards. That discussion may begin to provide a conceptual basis for the kind of narrowing discussed in the previous section of this memo, and for further discussion of "comparative advantage."

* * *

Core data and comparative advantage

Conceptually, chapter 7 is in some ways a key chapter of SFFAC 1, and it may be time to focus more attention on it. One of the things I offer for consideration in the attached draft revision of SFFAC 1 as a way to "narrow down" is an expansion on the implications of the idea that the transaction-driven accounting system provides the "core" data of concern to accountants. This idea seemed spontaneously to appeal to the initial Board members, but we did not discuss it extensively in our deliberations or in SFFAC 1. I have started to illustrate how we might lay the groundwork for this with some revisions to Chapter 7 (see page **Error! Bookmark not defined.**); however, before we consider issuing a revised SFFAC 1, similar ideas could be developed more extensively via options 1, 2, and/or 3 as listed on page **Error! Bookmark not defined.** of this memo.[20]

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[20] Those who have time and interest to pursue some academic commentary I find relevant to this theme may want to read "Some Thoughts on the Intellectual Foundations of Accounting," by Joel Demski, John Fellingham, Yuji Ijiri, and Shyam Sunder, *Accounting Horizons*, Vol. 16 No. 2, June 2002, pp. 157-168. For those with less time, I would point in particular to the comments from Shyam Sunder on "Decision Making and Control: An Accounting Duality," on page 159-161 and from John Fellingham on "The Core and the Superstructure of Accounting in the Curriculum," on pages 163-164. Board members will find this at **tab B-2**, along with a somewhat fuller (if still cryptic) exposition of Fellingham's ideas in "An Academic Curriculum Proposal," by Anil Arya, John Fellingham, and Douglas Schroeder, *Issues in Accounting Education*, Vol. 18 No. 1, February 2003. These are abstract, descriptive discussions of accounting as a discipline, rather different from the kind normative conceptual framework for financial reporting we see from FASB. They may, therefore, appear of limited relevance to us. On the other hand, some have suggested that FASAB's role and task are—or should be—rather different from FASB's. If that is so, revisiting fundamental concepts may be useful.

This has implications, if accepted, for how one understands the “comparative advantage” of accountants, audited financial statements, and FASAB. Implications, some might say, for how we distinguish the subset of “information needs” that are our primary concern. (Note: in the attached draft, I offer some language that expands on the idea of “comparative advantage on page 25. I am not sure whether this would be the best location for it, but it seems premature to worry much about that.)

155. [155] Finally, as noted earlier, accounting and financial reporting in general, and audited financial statements in particular, cannot satisfy every need for information and accountability. For many purposes, other information sources and other techniques to maintain and demonstrate accountability are either essential or more cost-effective. This constraint pervades any discussion of the objectives of federal financial reporting.

156. Accordingly, Board members focus on assessing where audited financial statements have a comparative advantage in meeting users' needs, and where other techniques are more appropriate. Factors that may indicate a comparative advantage for audited financial statements include:

- o Reliance on core financial data[21] inherent in the financial transaction processing system,
- o Impact of mandated periodic public reporting (not necessarily limited to core data) that is potentially independent of the budget, and
- o Potential for regular audit.

{NOTE FOR POSSIBLE DISCUSSION: this begs question of which needs are met . . . refer to chapter 7?}

Financial Core Data

~~166.~~[166] The accounting process begins with recording information about transactions between the Government (or one of its component entities) and other entities, that is, inflows and outflows of resources or promises to provide them. These may involve flows of economic goods, cash, or promises. These comprise the "core" data of the accounting discipline. This initial step in the accounting process (which some would call "double-entry bookkeeping" rather than accounting) is depicted at the bottom of figure 1, in the box numbered 1.

167 Double-entry bookkeeping may be viewed as the foundation of accounting.[22] It is a clerical technique, but one with significant, if subtle, implications for how accountants

[21] For a discussion of "core financial data," see page 25.

have traditionally understood and described the business entity and its relationship its environment. It is an old technique, but it remains the essential first step in the education of an accountant, and it continues to be an essential part of any description of the actual operation and practice of financial accounting. One might say it is the "lens" through which accountants have traditionally seen the world, and to a great extent continue to do so.

168. This lens focuses attention on certain causal relationships and certain concepts, including the concept of cost. More than anything else, it may be what distinguishes accounting from related disciplines such as finance, economics, and information systems design. It provides an essential element of accountability, and helps to define the particular subset of potentially useful information that is the primary focus of the basic financial statements defined by standards published by FASAB. (See Appendix D for more about double-entry bookkeeping.) To enhance the usefulness of this core set of data about transactions with other entities, accountants make various accruals, classifications, interpretations, etc.

{NOTE FOR DISCUSSION: see Fellingham's comments on the "core and superstructure of accounting"}

[22] See "Some Thoughts on the Intellectual Foundations of Accounting," by Joel Demski, John Fellingham, Yuji Ijiri and Shyam Sunder, *Accounting Horizons*, June 2002, Vol. 16, No. 2, pages 157-168; in particular Fellingham, pages 163-64.

Figure 1: How Accounting Contributes to Information Used by
Citizens, Congress, Federal Executives, and Program Managers

Information used to assess accountability and performance, to make planning and policy decisions, to allocate resources, to decide how to vote, and for other decisions					
FINANCIAL INFORMATION				**NONFINANCIAL INFORMATION**	
Special-purpose reports			**General-purpose reports**		**Special-purpose**
Various special-purpose financial reports from committees of Congress, agencies, GAO, news media, etc.	e.g., agency budget requests, the *Budget of the United States Government*	Budget execution reports	~~e.g., financial information required by the CFO Act~~Reports in conformance with federal accounting standards; the financial section of the PAR.	e.g., ~~nonfinancial~~ information required by ~~the CFO Act~~GPRA; the performance section of the PAR.	Special purpose nonfinancial information from agencies, news media, etc. e.g., Federal Managers' Financial Integrity Act reports

3. Reporting Useful Information

2. Environmental Data
(e.g., changes in market value or service potential, contingent gains & losses, program results)

1. Entity Transaction Data
(e.g., revenues and expenses, inputs and outputs)

Entity Status Data
(Assets & liabilities)

Other Entities

Appendix IV: Excerpts from FASB's CON 2, Qualitative Characteristics

[NOTE: The full text of all FASB Statements is available on line at http://www.fasb.org/st/#cons, now that FASB is financed by fees mandated by federal law. However, FASB still says that the material is not for redistribution. Accordingly, the discussion of neutrality in CON 2 has not been placed on FASAB's website.]

Appendix V: Summary of FASB's CON 4, Objectives of Financial Reporting by Nonbusiness Organizations

Mr. Patton suggested that we might infer some relevant advantages from FASB's Statement of Financial Accounting Concepts Number 4, *Objectives of Financial Reporting by Nonbusiness Organizations.*

[NOTE: The full text of all FASB Statements is available on line at http://www.fasb.org/st/#cons, now that FASB is financed by fees mandated by federal law. However, FASB still says that the material is not for redistribution. Accordingly, the summary of CON 4 has not been placed on FASAB's website. Parts of footnotes * and ** in CON 4 have been rendered moot by subsequent developments, including general acceptance of GASB's jurisdiction and the Sarbanes-Oxley Act. However, AICPA still nominally designates the body that determines "GAAP" and it still publishes auditing standards for not-for-profit entities and for some state and local governmental entities.]

Appendix VI: Mission Statement--Federal Accounting Standards Advisory Board

The General Accounting Office, the Department of the Treasury, and the Office of Management and Budget established the Joint Financial Management Improvement Program (JFMIP), to conduct a continuous program for improving accounting and financial reporting in the federal government. To complement the JFMIP, the Comptroller General, the Secretary of the Treasury, and the Director of the Office of Management and Budget (the JFMIP principals) established the Federal Accounting Standards Advisory Board (FASAB) to consider and recommend accounting standards and principles for the federal government.

Mission Statement

The mission of the FASAB is to recommend accounting standards to the JFMIP principals after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of federal financial information.

Accounting and financial reporting standards are essential for public accountability and for an efficient and effective functioning of our democratic system of government. Thus, federal accounting standards and financial reporting play a major role in fulfilling the government's duty to be publicly accountable and can be used to assess (1) the government's accountability and its efficiency and effectiveness, and (2) the economic, political, and social consequences of the allocation and various uses of federal resources.

Accounting standards should:

- Result in federal agencies providing users of financial reports information that is understandable, relevant, and reliable about the financial position, activities, and results of operations of the United States government and its component units; and

- Foster the improvement of accounting systems and effective internal controls that will help provide reasonable assurance to users that governmental activities can be conducted economically, efficiently, and effectively, and in compliance with applicable laws and regulations.

How the mission is accomplished:

To accomplish its mission, the FASAB acts to:

- Determine the primary users of federal financial information and their needs;

- Recommend accounting standards and principles that improve the usefulness of financial reports based on the needs of users and on the primary characteristics of understandability, relevance, and reliability;

- Provide advice to central financial agencies on implementing the standards;

- Improve the common understanding of information contained in financial reports;

- Recommend standards and principles only when the expected benefits exceed the perceived costs;

- Review the effects of current standards and recommend amendments or replace standards when appropriate;

- Use a thoughtful, open, neutral, and fair deliberative process and consider the accountability and decision-making needs of users; and

- Develop rules of procedures designed to permit timely, thorough, and open study of financial accounting and reporting issues and to encourage broad public participation in all phases of the accounting standard-setting process.

The FASAB recognizes that general acceptance of its recommendations is enhanced by demonstrating that the comments received in due process are considered carefully. The Board is authorized, however, to recommend interim standards to be used in federal financial statements for fiscal years ending before October 1, 1991, without first publishing an exposure draft of such recommendations.