The Functional Utility of Resale Price Accounting

R. J. Chambers*

This paper presents the outcome of inquiries made in the expectation of clarifying the relationship to judgment and action of some ideas and magnitudes common in accounting discourse and practice. It is commonly held that the information yielded or to be yielded by accounting processes should be useful. Beyond that point, however, there has been widespread debate concerning the money amounts representing assets that are useful as elements of periodical balance sheets and income statements, and in what ways the individual amounts and aggregates of them are useful have generally been left in doubt.

The inquiries were made by mailed questionnaire. Substantially similar questionnaires were used during 1980 to 1982 in Australia, Canada, New Zealand, South Africa, and the United States. They yielded 4,932 usable responses. The authors, dates of surveys, and publication information of the results are listed in the Appendix.

Background

The prices of goods and services are signals to consumers, merchants, and producers of the existence and prospect of opportunities for trade. Whether a person as consumer or a business firm as producer or trader can take advantage of any such opportunity depends on the command from time to time of cash and things convertible to cash by sale, and the extent of debts to others. Persons and firms having a variety of possessions – money, goods, and rights to receive money – may, as new

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prospects attract their attention, consider selectively the money they owe, the money they possess, and the non-money possessions they could sell to avail themselves of singular opportunities. Only on rare occasions may they consider the aggregate of the money equivalents of their assets, the money they possess, and what other possessions would fetch if sold, for example, when a major change in asset holdings is contemplated, or when substantial debt (in relation to asset holdings) has been or is soon to be incurred. Since any one or any combination of non-cash assets may be sold to make any change in asset holdings, however, knowledge of the values in exchange of those assets is, in principle, a prerequisite to choice from among the opportunities available.

The relationship between the aggregate amounts of assets, debts, and residual interests in assets of any party may be described as financial position. The balance sheets of business firms have the appearance of representing those assets and interests. A long line of practitioners, academics, and judges have held that balance sheets do, or should, represent financial positions. Balance sheets are commonly described as, or accepted as, representing financial positions. However, seldom do textbooks and the more scholarly literature of accounting or finance develop well-formed concepts of financial position, wealth, and income. Consequently, many ways of determining the amounts by which assets and equities are represented in balance sheets have been used in practice or advanced by proponents of systems claimed to be superior to traditional practice. The values in exchange or money equivalents have been accepted in all these cases for cash, receivables, and payables. But only under one proposal – continuously contemporary accounting (CoCoA) – has the consistent and systematic use of those values been upheld.

A symposium organized by Professor R. Sterling, held at Rice University in 1978, was intended to explore the possibility of reaching "agreement on a core theory of accounting." The participants included advocates of all the main modes of periodical asset valuation. The brief to participants stipulated that they should deal with the accounting for a simplified company having only two classes of assets, cash and depreciable taxicabs.
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Attention would thus be focused on the accounting for cash, on which there is widespread agreement, and on the accounting for a representative non-cash asset, on which there is equally widespread disagreement. Ross Skinner, who provided the closing "synthesis," found little in common among the contributions as a whole. The present author's paper advanced the use of values in exchange or dated money equivalents as the general principle of periodical asset valuation. Of that paper, "The Taxi Company under CoCoA," Skinner said: "...we still need empirical substantiation of the Chambers premise. In fact, I suspect that the reason Chambers' model has not won widespread acceptance is the lack of intuitive appeal of his premise."¹ That model had supposed, to the contrary, that the use of resale prices for the representation of financial position would have immediate intuitive appeal to all who buy and sell and borrow and lend, for the choice that gives rise to every such action is predicated on the cash available, or accessible by the sale of non-cash assets, to the actor. The premise seemed to be "empirically substantiated" by the most common experiences of a money economy. However, that supposition may have been mistaken. Many things taken for granted are in need of questioning.

This author has always preferred observation at a distance from what is observed to the use of contrived experiments and questionnaires as sources of evidence in support or refutation of beliefs. In Securities and Obscurities,² a large number of observed and reported events and dicta were held to be supportive of the functional utility of the products of continuously contemporary accounting. However, if commercial, financial, and accounting events were not acceptable as "empirical substantiation," perhaps inquiry by questionnaire would clarify the matter, one way or the other.

Certain conditions had to be met. Whether any rule for quantifying assets yields serviceable information is made most clearly evident in

commonly experienced circumstances. Some use had therefore to be made of simple but common problem situations as test items. Terms descriptive of accounting ideas, processes, or systems may evoke vocationally conditioned responses. Their use was minimized. A number of methods of quantifying assets were tested, separately and comparatively, but in a limited variety to avoid confusion at the points of response and analysis. Attention was confined to asset valuation on the historical cost, replacement or current cost, and resale price or value in exchange rules. Ambiguity in test material and ambivalence in responses were not altogether avoidable in single questionnaire inquiries. Some questions of similar purport, phrased in slightly different terms, could be used to check their occurrence. Experiments and surveys are expected by their designers to clarify matters in doubt or debate, but test material should be devised to avoid leading respondents in any one of the directions in debate. Some balance in question content and haphazard arrangement of questions in the questionnaire might achieve this. Because the matter at issue was the usefulness of information, in bits and in aggregates, questions dealing with components and with aggregates should be included. In case knowledge of the author's association with the inquiries might influence responses, the source and return destination of questionnaires were shown as a research or educational establishment in all cases.

A series of questions similar to those characterized here was tested at a small academic conference in Los Angeles in July 1979. It revealed a tendency to give responses qualified by caveats and provisos. Any simple question can be made complicated, and its object may be aborted by the introduction of conditions or additional premises at the respondent's option. The questionnaire used in the principal studies directed respondents to make no assumptions other than those explicitly stated in the questions.

The pilot test also revealed internal inconsistencies in individual responses. Members of a group having different theoretical commitments might be expected to respond quite differently to some of the questions. But it was not expected that members of such a group would give logically contradictory responses to related questions. On the other hand,
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both the literature and the practice of accounting tolerate inconsistencies. Adding an amount of cash (balance-dated general purchasing power) to the price of non-cash asset (differently dated general purchasing power) in a dated balance sheet is an example. Whether a larger and different sample of respondents would exhibit similar inconsistencies was unknown. To discover that would be an interesting by-product of the exercise. The general style of the pilot questionnaire was retained.

The Australian survey, intended initially to be the only one, was conducted in early 1980. The questions were in such a general form, however, that they could be answered by accountants and non-accountants and, with minor alterations, by respondents in any economy having commercial practices and financial publicity laws similar in purport to those in Australia. In mid-1980, and in the light of the Australian results, the survey was replicated in Canada, New Zealand, South Africa, the United Kingdom, and the United States. The U.K. survey was later abandoned for lack of financial support.

Sample Composition

A "fairly large" sample was sought of persons qualified as accountants and of other persons who, by profession or occupation or other experience, might be expected to use financial magnitudes appearing in the products of accounting processes. The two major groups were considered likely to give similar responses on the usefulness of specific items of information but might entertain different ideas about such aggregates as income or profit, financial position, and wealth. The professional training of accountants, their vocational preoccupation with traditional accounting rules, and their familiarity with the debate over alternative styles of accounting might cause such differences. The sample, therefore, was designed to include a substantial number of qualified accountants and other people. Among the others were practitioners in the financial, legal, medical, veterinary and engineering professions, business executives, and, in two countries, a number of workers' union officials.

Mailing lists were stratified to secure fairly large subsamples of ac-
### Exhibit 1. Sample Compositions – Five Countries

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
<th>New Zealand</th>
<th>South Africa</th>
<th>United States</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective mailing</td>
<td>1,944</td>
<td>2,251</td>
<td>1,000</td>
<td>2,017</td>
<td>1,835</td>
<td>9,047</td>
</tr>
<tr>
<td>Usable responses</td>
<td>1,126</td>
<td>1,236</td>
<td>877</td>
<td>1,065</td>
<td>828</td>
<td>4,932</td>
</tr>
<tr>
<td>Response rate (percent)</td>
<td>58</td>
<td>55</td>
<td>68</td>
<td>53</td>
<td>45</td>
<td>55</td>
</tr>
</tbody>
</table>

#### Composition of respondents (percent)

<table>
<thead>
<tr>
<th>Category</th>
<th>Australia</th>
<th>Canada</th>
<th>New Zealand</th>
<th>South Africa</th>
<th>United States</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountants</td>
<td>66</td>
<td>52</td>
<td>69</td>
<td>48</td>
<td>26</td>
<td>49</td>
</tr>
<tr>
<td>Bankers and financiers</td>
<td>9</td>
<td>7</td>
<td>9</td>
<td>12</td>
<td>—</td>
<td>8</td>
</tr>
<tr>
<td>Economists</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>20</td>
<td>3</td>
</tr>
<tr>
<td>Legal practitioners</td>
<td>7</td>
<td>8</td>
<td>8</td>
<td>6</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>Others</td>
<td>18</td>
<td>33</td>
<td>14</td>
<td>34</td>
<td>38</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Accountants and others. Professional and other directories were used. Names were selected haphazardly; but because directories are usually selective (what could be used depended on what was available and the willingness of addressees to cooperate could not be known), the mailing lists could not be described as random samples or as representative of specific professions, trades, or callings. The mailing lists and the responses could be said to include a broad spectrum of individuals who, as business people or investors on their own account, would have some practical knowledge of financial matters. That would suffice; the inquiry was to be exploratory of common understandings, not exploratory of the differences between the understandings of different classes of person. By “fairly large,” used with reference to samples and subsamples, nothing stronger was or is intended than that the respondents should be a nontrivial number of persons representing some of the diversity of the population of the community at large. The compositions of the samples and of the aggregate of samples are given in Exhibit 1.

Response rates varied between countries and subsamples in each country. For each country, the responses were at least as good as, and in some cases better than, response rates reported for similar inquiries. There seemed to be nothing specific in the questionnaire that would encourage
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recipients not to respond. As a mild inducement, the Canadian inquiry offered respondents a summary of the raw results; the Canadian response rate was no better than the average of the other surveys. The general indifference of many people to inquiries by mail is all that can be offered as an explanation of failure to respond.

The Questionnaire

Some of the questions detailed simple problem situations in which knowledge of some money amount is necessary and certain kinds of amounts were given. Others sought to elicit what respondents would regard as, or include in the calculation of, wealth, financial position, and income; some gave quantified examples; others gave verbal options. On the advice of a specialist in sample surveys, respondents were provided with two options (yes/no) in most cases. The following are examples; the identifying symbols correspond with those used in Exhibit 2.

W1 If you have $1,000 in the bank and 100 company shares for which you paid $1,500 three years ago, and you have no other property, would the sum of these amounts ($2,500) indicate how much money is at your disposal now?

Yes........1
No.........2

W2 Do you think your financial position would be best represented by the relationship between:

(a) what you owe (your debts), and the total of all your money and the amount your other possessions would fetch if they were sold? ........1

or (b) what you owe (your debts), and the total of all your money and the prices paid for your other possessions? ........2

or (c) what you owe (your debts), and the total of all your money and what you would have to pay
### Exhibit 2. Wealth, Financial Position, and Spending Power
(Percentages of analytically expected responses – AER)

<table>
<thead>
<tr>
<th>Question</th>
<th>Australia</th>
<th>Canada</th>
<th>New Zealand</th>
<th>South Africa</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>W1 Is spending power indicated by the cost of an asset?</td>
<td>No</td>
<td>97</td>
<td>96</td>
<td>96</td>
<td>96</td>
</tr>
<tr>
<td>W2 Is spending power indicated by the replacement cost of an asset?</td>
<td>No</td>
<td>62*</td>
<td>84</td>
<td>95</td>
<td>90</td>
</tr>
<tr>
<td>W3 Is wealth indicated by the un-amortized cost of an asset?</td>
<td>No</td>
<td>95</td>
<td>91</td>
<td>96</td>
<td>94</td>
</tr>
<tr>
<td>W4 Are amounts of assets indicative of debt paying or spending power?</td>
<td>Yes</td>
<td>23*</td>
<td>56</td>
<td>59</td>
<td>56</td>
</tr>
<tr>
<td>W5 Does present wealth include expected proceeds of the use of assets?</td>
<td>No</td>
<td>97</td>
<td>97</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>W6 Does present wealth depend on expectations of the future?</td>
<td>No</td>
<td>85</td>
<td>—</td>
<td>80</td>
<td>90</td>
</tr>
<tr>
<td>W7 Is wealth indicated by the sum of cash holdings and (a) the cost of assets? or (b) the selling prices of liquid assets and the buying prices of durable assets? or (c) the selling prices of non-cash assets?</td>
<td>(c)</td>
<td>93</td>
<td>91</td>
<td>91</td>
<td>90</td>
</tr>
<tr>
<td>W8 Is financial position best indicated by using for assets (a) what possessions would fetch if sold? or (b) the prices paid for non-cash assets? or (c) the purchase prices of non-cash assets?</td>
<td>(a)</td>
<td>83</td>
<td>82</td>
<td>83</td>
<td>78</td>
</tr>
<tr>
<td>W9 Is a person insolvent whose immediate debts exceed the worth of assets?</td>
<td>Yes</td>
<td>69</td>
<td>62</td>
<td>86</td>
<td>71</td>
</tr>
</tbody>
</table>

* The Australian (earliest) form of the question was subsequently made more precise.

![Image](https://example.com/image.png)

To buy your possessions if you did not already have them?  

Collaborators in the replications were given a modest amount of freedom to vary the details of the questions, to be consistent with local conditions.
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currencies and prices; to vary the composition of the questionnaire; and
to vary the composition of the sample. Some questions were included
in only some of the surveys, hence the blanks in Exhibits 2 and 4.
But the key questions, on wealth and financial position, and significant
words were used throughout. The general coverage of the questionnaire
was substantially the same in all cases.

The questions were divided almost equally into two groups, one relating
to wealth, financial position, and spending power, the other to income and
changes in wealth. The terms “wealth,” “financial position,” “spending
power,” “gain,” “loss,” and “better off” were used as having more or
less common interpretations. If this assumption were erroneous, the error
would become apparent in the responses. The word “value” was not
used; its many possible meanings would have been a source of vexatious
ambiguity. Similarly, “worth” was used sparingly. “Assets” was used only
once. As indicated earlier, the object of using terms that might be readily
and commonly interpreted was to avoid the possibility of confusion that
might arise from the use of terms of art. The wealth-oriented and income-
oriented questions were spread randomly through the questionnaire, so
that respondents would be obliged to consider each question anew.

Interpretation

The absence of a coherent set of ideas linking financial magnitudes
with judgment and action would cause the responses to each of the
questions to be unrelated. Responses to a question relating to spending
power could not be connected in any way with responses to a question on
wealth, or financial position, or income, for example. However, a coherent
set of ideas may be developed for the term “spending power.” In a
market economy, the capacity of the party to engage in transactions with
others depends on access to spending power. Spending power is signified
by holdings of money and of other things having value in exchange. In
a credit economy, it depends also on the debt situation of the party.
The liquidation of debts is a commitment of spending power. Spending
power is augmented by income-earning operations, the sale of services
by persons, or the trade in goods and services by firms. Every party whose means are scarce relative to wants will choose, among optional transactions within accessible spending power, that or those expected to yield the greatest advantage or the least disadvantage at some subsequent time. Expected advantage includes expected spending power. To choose to advantage depends, among other things, on knowledge of accessible spending power and debts from time to time, and the rate at which net spending power has increased or diminished between such times.

In this plan, spending power (the values in exchange of possessions), financial position (the capacity to engage in transactions by virtue of exchangeable possessions and debts), wealth (the spending power represented by exchangeable possessions net of debt), and income (the periodical increment or decrement in wealth) are integrally related ideas. The amounts that represent them are integrally related amounts. Given the conditions stipulated — interpersonal exchange at money prices, credit, and scarcity of means — to any concept of wealth there is a corresponding concept of income.

In preparing the questionnaire, there could not be, and there was not, any presumption that respondents would adopt or endorse any specific concept of wealth. That was to be discovered. Whether in addition to the concept of wealth endorsed by any respondent there would be a corresponding concept of income was also to be discovered. In analyzing responses, it would be convenient to have a self-consistent set of ideas that might be used as a standard or yardstick. It was supposed to be intuitively obvious that spending depends on spending power. The above set of ideas linking spending power with financial position, wealth, and income could serve as a means of analyzing responses. To every question of substance, then, there corresponds a response that may be described as “expected on analytical grounds,” a unique response that can be shown to be a necessary premise of choice on grounds related to the logic of choice in financial matters. The raw data would thus yield distributions of responses, the frequency of analytically expected responses, and, by cross-tabulation of responses to similar or related questions, and indication
of the consistency of ideas entertained by respondents or deducible from responses.

The results are presented in Exhibits 2 and 4. In those tables, the forms of the questions are digests closely representing the purport of the questions used. The words and phrases emphasized in the tables identify the principal reference of each question. Generally, those exact words were used in the questions, but of course without the emphasis. The arrangement of the questions is orderly; the arrangement in the questionnaires was random.

Wealth, Financial Position, and Spending Power (Exhibit 2)

The questions provided the opportunity to consider a variety of ways to estimate wealth, financial position, and spending power — past costs, replacement costs, expected proceeds of use, and the selling prices, of assets. The substantial proportions of negative responses to questions W1, W2, W3, W5, and W6 signified a general rejection of initial costs, replacement costs, and expected proceeds, taken singly, as estimators of spending power and wealth. When, in questions W7 and W8, relating to aggregate wealth and financial position, three optional values for assets were offered, substantial proportions of respondents indicated that the selling prices of assets were the appropriate means of quantifying assets. The conjunction of these two sets of responses gives grounds for supposing that the money equivalents of assets — the amount of cash and the selling prices of non-cash assets — are considered to be magnitudes relevant to financial choices and judgments as against other magnitudes for possessions at a given date.

Of interest, furthermore, is that these majority responses corresponded in all cases with the analytically expected responses. In effect, this confirmed the suppositions on which the analytically expected responses were based. The responses to questions W4 and W9 were, in aggregate, in keeping with the analytically expected responses were based. The responses to questions W4 and W9 were, in aggregate, in keeping with the analytically expected responses, but to a less decisive extent. The word "assets" was used only in W4, and "worth" was used only in W9: both questions
### Exhibit 3. Wealth and Financial Position: Money Equivalent Responses

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th></th>
<th>Canada</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Wealth (W7)</td>
<td>1,041</td>
<td>93</td>
<td>1,121</td>
<td>91</td>
</tr>
<tr>
<td>Financial position (W8)</td>
<td>935</td>
<td>83</td>
<td>1,009</td>
<td>82</td>
</tr>
<tr>
<td>Both (i.e., consistent)</td>
<td>889</td>
<td>79</td>
<td>955</td>
<td>77</td>
</tr>
<tr>
<td>Total responses</td>
<td>1,126</td>
<td>100</td>
<td>1,236</td>
<td>100</td>
</tr>
</tbody>
</table>

alluded to the relationship between amounts of assets and amounts of debt. However, the substantial majorities of analytically expected responses to the other questions taken singly mask some anomalies. Of the five exercises, the Australian and Canadian data were the most intensively examined; but from the general similarity of responses, there seems to be no ground for expecting the other surveys to differ. Questions W7 ("wealth") and W8 ("financial position") were intended as cross-checks. Both yielded substantial majorities in favor of the use of resale prices or money equivalents. But for the two questions together, quite a number of individuals gave inconsistent responses (see Exhibit 3). Other anomalies are apparent from the data of Exhibit 2. Spending power was said to be associated with asset costs by 3 to 4 percent of respondents (W1). Replacement cost was said to be associated with spending power by a non-negligible minority.

### Income and Changes in Wealth (Exhibit 4)

The questions on income and changes in wealth were expected to indicate what is commonly understood by income and whether its common understanding is consistent with what is understood by wealth. Since the greater part of accounting practice deals with business income, and since the greater part of accounting debate is concerned with what shall be included in business income calculation, questions were framed principally with reference to one class of investment for income, company shares. It seems likely that the types of individuals who would be respondents would have had some experience of investing in securities or of dealing with the security investments of others. Further, there is a known source
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**Exhibit 4. Income and Changes in Wealth**
(Percentages of analytically expected responses – AER)

| Y1  | Is the difference between a purchase price and a higher price obtained on sale of an asset a gain? | Yes | 77 | 66 | — | — |
| Y2  | Is the difference between a purchase price and a lower price obtained on sale a loss? | Yes | 80 | — | — | — |
| Y3  | Does a fall in the price of an asset represent a loss? | Yes | 33 | 56 | 53 | 37 | 49 |
| Y4  | Is income from an investment the difference between dividends received and a fall in the selling price of an asset held? | Yes | — | — | 35 | 24 | 37 |
| Y5  | Is one better off by the amount of a rise in the price of an asset held? | Yes | — | 58 | 61 | 49 | 66 |
| Y6  | Does wealth decrease by the amount of a fall in the price of an asset held? | Yes | — | — | 91 | 84 | 88 |
| Y7  | Does profit imply a corresponding increase in wealth? | Yes | — | 60 | — | — | — |
| Y8  | Does profit imply a corresponding increase in spending power? | Yes | 16 | — | 21 | 25 | 25 |
| Y9  | Is the effect of inflation on a fixed nominal amount of assets to reduce wealth? | Yes | 92 | 93 | 92 | 93 | 87 |
| Y10 | Is one better off consequent upon using a less costly rather than a more costly unit of a homogeneous stock? | Yes | 98 | 96 | 97 | 97 | 94 |

of share prices, so that accrued gains or losses on share holdings could be readily determined.

As indicated earlier, under the plan by which the analytically expected responses were determined, wealth and income are integrally related. That income is an increment in wealth has been explicitly endorsed by many writers on accounting. Further, it is implicit in the processes of double-entry
bookkeeping, for whether income is computed as a difference between dated statement of wealth, or balance sheet amounts are residuals consequential from the calculation of income in other ways, the derivation of one entails the magnitude of the other. Under the conditions stipulated—interpersonal exchange at money prices, credit, and scarcity of means—it might have been expected that responses to the questions summarized in Exhibit 4 would reflect the same (high or low) degree of correspondence with analytically expected responses as those of Exhibit 2.

It turned out not to be the case. In the earlier surveys (Australia, South Africa, United States), it was taken for granted that a realized difference between a purchase price and a selling price would be regarded as a gain or a loss. When such questions were later asked (Y1 and Y2 of Exhibit 4), unexpected minorities responded otherwise. If wealth is properly estimated by reference to what assets would fetch if sold (see the large majority response to question W7 of Exhibit 2), rises and falls in the prices of assets still in possession might be expected to be included, by a corresponding majority, as gains or losses in income calculation. The responses to questions Y3, Y4, and Y5 did not show such a majority. The result was materially better when a fall in price was related to wealth (Y6). Responses to questions relating profit to wealth and spending power (Y7, Y8) were widely divergent from expectations.

Two other rather different questions constituted the set. A large proportion of respondents considered the effect of inflation on asset holdings to be a reduction in wealth (Y9). Question Y10 was expected to indicate whether respondents had any common response to a situation in which cost-flow assumptions (such as FIFO and LIFO) are widely used in accounting. In the case of a homogenous stock, which unit of those bought at different prices is used first has no bearing on subsequent "well-offness." A large proportion of respondents held that opinion.

Some General Inferences

The substantial similarity of responses, across five countries in many cases, may have been expected. The countries surveyed have substantially
similar laws, understandings, and practices in commercial and financial matters, and the types of individuals whose responses were sought would be likely to have had substantially similar experiences in personal and commercial financial arrangements. As indicated earlier, it was initially supposed that accountants as a class might have responded differently to some questions than other persons, due to their training and vocational conditioning, but that supposition seems to have been mistaken. Exhibit 5 presents the responses of accountants to certain questions. These percentages are approximately the same as those for the entire samples reported in Exhibits 2 and 4. Confronted with problem situations or with question without allusion to accounting practices, accountants seemed to differ in no substantial way from the other groups in the samples. In particular, for the five countries, there was the same general rejection of replacement cost (W2) and unamortized cost (W3), and endorsement of selling prices (W8), in the situations specified, contrary to widely held opinions and practices.

Some general features of the questionnaires and responses deserve closer attention. Almost all of the questions that specifically used the terms "wealth," "financial position," and "spending power" yielded high proportions of analytically expected responses (W1, W2, W3, W5, W7, W8, Y6, Y9, Y10). Almost all of the questions that used the terms "gain," "loss," "income," and "profit" yielded lower, and in some cases much lower, proportions of analytically expected responses (Y1, Y2, Y3, Y4, Y7, Y8). In addition, in all surveys, there were minorities, both of accountants and non-accountants, who held such notions as the cost of a security three years ago is indicative of present spending power; the difference between the purchase price and the realized sale price of an asset is not a gain or a loss, as the case may be; and inflation has no bearing on the wealth represented by an earlier dated money sum.

These minor oddities and the marked difference in responses to wealth-oriented and income-oriented questions suggest that the respondents did not hold as clear and systematic an idea of the relationship between wealth and income as may be necessary for analytical or prescriptive rigor. That
Exhibit 5. Percentage of Analytically Expected Responses of Accountants to Selected Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Australia</th>
<th>Canada</th>
<th>New Zealand</th>
<th>South Africa</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>W2</td>
<td>748</td>
<td>641</td>
<td>468</td>
<td>510</td>
<td>212</td>
</tr>
<tr>
<td>W3</td>
<td>96*</td>
<td>86</td>
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* Earliest form of a question was later rephrased more precisely.

may have been anticipated. Accounting textbooks, handbooks, standards, and practice display great tolerance for diversity and inconsistency in what is represented as wealth and income. Non-accountants having experience of accounting and its products would have been subject to the same influence.

The high proportions of analytically expected responses to wealth-oriented questions are not explicable in the same terms. The traditional method of representing financial position and wealth ("shareholders' funds" is the common description) is by a balance sheet in which non-monetary assets are valued at their costs or unamortized costs, and most of the discussion of alternatives has focused on some variety of replacement costs or discounted proceeds of use and sale. All of these modes of asset quantification were rejected by large majorities of respondents; large majorities endorsed "what possessions would fetch if sold" (resale prices or money equivalents). For accountants and non-accountants, those majorities were of the same magnitude. The responses suggest, further, that wealth, financial position and spending power are considered to be closely related concepts; questions using each of those terms generally yielded high percentages of analytically expected responses. Respondents appeared to have held clearer and more exact ideas of wealth and changes in wealth than of gain, loss, profit, and income.

There is a plausible explanation. Buying and selling and borrowing
and lending are much more frequent experiences than income calculation. Any party contemplating one or more of these actions on a non-trivial scale must ask, "How much money do I now have access to by virtue of my present possessions and debts?" The same question would be asked by any party considering whether present income is or is not adequate to make feasible some future action, and by any party who wishes to know on what scale a present rate of income must be augmented or may be reduced. The answer to the question is necessarily a spendable sum, of cash in hand and what could be raised by disposing of non-cash assets. Far less frequently is income of a period calculated; thus, far less frequently is the possibility of a connection between income and wealth considered by individuals. The most common experience of income calculation by individuals is for the purpose of income tax assessment, and generally for that purpose, accrued gains and losses (the subject of questions Y3 and Y4) are disregarded. Further, the answer to the question "What is my income?" asked at any other time will inevitably be vague. People such as those who were respondents commonly have more than one source of income. Some income may be subject to deductions at the source. Income from property may be auxiliary income for which no more precise estimate is necessary than is given by cash received. In short, a cash-flow concept of income may often be convenient and sufficient, even to those who would accrue shifts in the prices of assets when estimating wealth.

In the circumstances, indeed, the third of the conditions under which observation would be expected to correspond with the model of informed action — namely scarcity of means — is not satisfied. A person whose stock of means (assets) or whose income provides a buffer against want is not impelled to keep the employment of the stock and the income it yields under anxious scrutiny. The types of person who constituted the samples in these surveys are likely to fall within the description. To professional and salaried income earners, income from property may be a welcome supplement, not an economic necessity. Investment in securities or other property may be chosen on the maximizing principle, but by
reason of the uncertainty of investment outcomes, the costs of transactions and the auxiliary nature of property incomes, those investments may be subjected to only occasional reconsideration.

Some Conclusions

On the basis of data, such as those of Exhibit 3, at least three of four, and possibly a much higher proportion, of the respondents would not be misled by a statement of wealth or financial position in terms of the values in exchange of assets, and would be misled by a statement that quantified assets in other ways. There is no such clear indication regarding income or income calculation from the responses. Though the previous section offered some speculative explanation of the inconsistencies in the individual responses, and of the mass divergence of some responses from what was analytically expected, responses to income-oriented questions give no direct guidance to an ideally informative concept or measure of income. Respondents may have entertained loose or ambiguous ideas as to the relationship between income and wealth as of a particular time in respect of personal affairs. Most of the problem situations specified in the questions were of the nature of personal problem situations. No such vagueness is tolerable, however, in accounting for business firms or for the information of parties financially interested in them.

Business firms are perennially at the risk of the impact, on spending power, financial position, and income, of innovation, obsolescence, competition, and changes in tastes. The impact on any firm is no different in principle or effect whether it arises from trading gains and losses or from changes in the money equivalents of durable or other goods while in a firm’s possession. To actual or prospective changes in the prices of assets, senior executives and subordinate buying, selling, and processing executives may react, remedially or aggressively, but only if the means of doing so are, and are known to be, at the firm’s disposal, and only to the extent that doing so will not adversely affect the firm’s financial position in other ways. Prompt and coordinated action to sustain profits and maintain solvency depends on sensitive and current indicators of the
firm's access to spending and debt-paying power, and the rate of growth of net spending power, from time to time. Unless the rate of return, a key indicator of financial success, is the ratio of a dated increment in net spending power to a dated amount of net spending power, it bears no relationship to the grounds and circumstances of a firm's decisions and actions.

Substantially, the same reasoning applies to external parties entitled to receive periodical financial statements. The laws relation to financial publicity are intended to enable outsiders to judge in their own interests the amount and the reliability of the spending power they may receive by way of interest or dividends. That judgment cannot reasonably be made unless what is reported as a periodical result is the periodical increment in spending power. Nor can judgments reasonably be made of a firm's solvency, leverage, asset composition, and debt-dependence from time to time unless the components of these indicators are expressed in dated amounts of spending or debt-paying power. Except for the laws relating to corporate financial publicity, no contractual provision for the supply of financial information to creditors and their agents or trustees is of value as a signal to lenders or constraint on borrowers unless that information is of the same kind. Further, since investors and creditors may or must choose between the firms whose operations they will support, no comparative judgment is possible unless the results and positions of business firms generally are determined by recourse to the (externally ascertained) values in exchange of their assets from time to time.

Although the surveys gave no unequivocal indication of a wide endorsement of a particular method to calculate income, such a method is entailed in the large majority responses to wealth-oriented questions. Of course, under any mode of double-entry accounting, what is represented as income and what is represented by a balance sheet are simultaneously determined or mutually entailed. But under systems using asset values other than dated money equivalents, there is no specifiable and intelligible relationship between periodical aggregates and the determinants of judgment and action.
Curiously, despite the universal bearing of financial position on choice and action, its practical significance has been largely disregarded. Textbooks may mention it briefly. Formal inquiries and professional directives over the whole of their history have not attempted to elucidate it. The whole of commercial operations and much of the business of individual persons are directed to the acquisition and disposal of spending power. But the income amounts and balance sheet aggregates of systems using original cost, replacement cost, and discounted proceeds as asset valuation bases have no ostensible connection with spending power.

For the future, there is no reason to suppose that it will be proper to use asset valuation rules which, in some obvious information-use situations, are analytically irrelevant and so generally rejected by respondents to these inquiries. If accounting is to provide serviceable information in a large variety of circumstances to a large variety of information users, the evidence and argument in favor of valuing assets in financial statements at their resale prices strongly suggest its superiority to other modes of valuation.

Appendix:


——— and R. Peterson (New Zealand, 1982), tabulations only; unpublished.

This author is indebted to the named collaborators for assistance in funding the inquiries; for devising local questionnaires; for selecting potential samples; for mailing and processing responses; and for aid in preparing the separate reports.

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