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The Trueblood Study Group on the Objectives of Financial Statements (1971–73): A historical study

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ABSTRACT

This paper examines the background and work of the AICPA's Accounting Objectives Study Group, chaired by Robert M. Trueblood, which issued its important report, Objectives of Financial Statements, in October 1973. The research is informed by interviews with three members of the Study Group and with four of the principal members of its research staff. Evidence is presented about the members of the Study Group who supported, or did not support, various positions in the report, including their apparent reasons, as well on the influential role of the research staff, especially George Sorter, in shaping the report. The conclusion is that the research staff, abetted by the financial analyst member of the Study Group, played a decisive role in driving the key recommendation in the report, namely, that financial statements should provide investors and creditors with information about the cash-generating ability of the enterprise, and eventually the cash flows to them. This recommendation resonated with the FASB and eventually with standard setters around the world.

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1. Introduction

The 61-page Trueblood Report of 1973, Objectives of Financial Statements, was not just another stab at launching a conceptual framework.[1] Its avowal of "decision usefulness" and on financial statements which enable investors and creditors to predict future cash flows to the enterprise, and eventually to them, set the terms of discourse not only for the Financial Accounting Standards Board (FASB) but also for other major standard setters. The Trueblood Report's recommendation was not only included in the FASB's concepts statement 1 on objectives issued in 1978 but was also included as an integral part of the statements of objectives issued by the standard setters in Canada (1988), Australia (1990), and the United Kingdom (1999) as well as in the conceptual frameworks issued by the International Accounting Standards Committee in 1989 and jointly by the FASB and International Accounting Standards Board in 2010 (for particulars, see Zeff (2013)). It precipitated a powerful trend around the world.

This approach represented a significant departure from the continuing argument among normative theorists during the 1960s over which measurement basis – historical cost, entry value, or exit value – should be used for measuring assets and even liabilities (see Nelson (1973)). Gore (1992, p. 47), in his study of the FASB's conceptual framework project, has written that the Trueblood Report was seen by many as "a radical report."

This paper is an attempt to understand how the nine-member Study Group on the Objectives of Financial Statements, formed by the American Institute of Certified Public Accountants (AICPA) in 1971, in the wake of widespread criticism of the performance of the Accounting Principles Board (APB), managed to place companies' cash-generating ability on center stage. What were the considerations that led the Study Group to adopt this recommendation? As part of the research for this paper, the author interviewed three of the four surviving Study Group members and two of the principal draftsmen of the Report plus two additional members of the Study Group's research staff. The insights and recollections obtained in these interviews and via a number of written communications have enabled a richer understanding of the dynamic of the Study Group's deliberations and of the factors that influenced the drafting of its report, and this represents the major contribution of this paper beyond the recitation of the Report's recommendations in Sorter (1973), Sorter and Gans (1974) and Zeff (2013).

The paper begins by reviewing, briefly, previous attempts by U.S. accounting bodies to propose conceptual guidance, and then turns to the disappointment and frustration with the AICPA's Accounting Principles Board in 1970 which led to the hurried formation of the Study Group on objectives. The next following sections deal with the organization of the Study Group, the submissions of views it received, its public hearing, and, most important, the parts played by the members and staff in the development of its report. Where possible, various contents of the report will be traced to intellectual origins.

2. Previous institutional attempts at providing conceptual guidance

One of the highest priorities of the young Accounting Principles Board (APB) during the early 1960s was to establish the basic postulates and broad accounting principles that would guide the board in its future work. In 1961, Maurice Moonitz wrote a research study on accounting postulates, which was followed the next year by a study by Robert T. Sprouse and Moonitz on broad accounting principles. But the Board, in a Statement (APB, 1962), concluded that their studies, which favored the use of current values, were "too radically different from present generally accepted accounting principles for acceptance at this time" and discarded them. Thus, the Board's attempt to lay a conceptual groundwork died aborning.

The American Accounting Association (AAA), for its part, had set up a committee in 1964 to prepare a statement of basic accounting theory. The committee's report, published in 1966, A Statement of Basic Accounting Theory (ASOBAT), broke with the AAA's series of "principles" statements, which had taken the conventional historical cost model as their normative base, and instead adopted a user orientation and a "decision-usefulness" perspective. It defined accounting as the process of "identifying, measuring, and communicating economic information to permit informed judgments and

[1] A photocopy of the report is available online: http://3197d6d14b5f19f2f440-5e13d29c4c016cf96cbbfd197c579b45.r81.cf1.rackcdn.com/collection/papers/1970/1973_1001_TruebloodObjectives.pdf.

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decisions by users of the information" (p. 1). This was the first utterance from a committee of an accounting body that placed emphasis on the "objectives of accounting." The first of its several objectives was to provide information for the purpose of "[m]aking decisions concerning the use of limited resources" (p. 4). Rather than specifying an optimal accounting model (stipulating the use of historical costs, current costs, or current values), it recommended four standards for accounting information for which "the all-inclusive criterion is the usefulness of the information" (p. 3): relevance, verifiability, freedom from bias, and quantifiability, followed by five guidelines for communicating financial information (chap. 2). Applying these attributes, the committee concluded that financial statements should be composed of dual columns of historical and current costs (chap. 3). Sterling (1967), in a review article, called the committee's approach "a new world-view." This decision-usefulness approach for external financial reporting may be traced mainly to the writings of George J. Staubus (1961) but also to the work of Horngren and Sorter (1961), but the AAA's committee report in 1966 was the first time the approach was embodied in a report published by an accounting body.[2]

The APB's Statement 4 (1970), "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," also adopted a "decision-usefulness" approach: that the "basic purpose of financial accounting and financial statements is to provide quantitative financial information about a business enterprise that is useful to statement users, particularly owners and creditors, in making economic decisions" (para. 73). This recommendation embodied seven "qualitative objectives [which] indicate the characteristics of useful information and thus provide criteria for appraising the usefulness of financial accounting information" (paras. 213, 87–94). The Statement then inductively developed basic features and basic elements of financial accounting, and, finally, enumerated two tiers of pervasive principles and broad operating principles. Yet the Statement cautioned that it "is primarily descriptive, not prescriptive. It identifies and organizes ideas that for the most part are already accepted" (para. 3). After the failure of the Moonitz (1961) and Sprouse and Moonitz (1962) studies to gain acceptance, the board hoped that its proposed Opinion on the fundamentals of financial statements would establish a normative framework for sound pronouncements. But the project's outcome, the non-binding, mostly descriptive Statement 4 (1970), did not have that effect.

Staubus (1961), who was the first major advocate of the decision-usefulness approach in external financial reporting, stipulated that "a major objective of accounting is to provide quantitative economic information that will be useful in making investment decisions" (p. viii), focusing on "informing investors [and creditors] about the prospects for cash receipts" (p. 15). Neither ASOBAT nor the APB's Statement 4 ventured so far as to call for the objective of enabling investors and creditors to estimate future cash receipts. Instead, they focused their analysis on users' "decisions" or "economic decisions."[3] When the author begin this research, his expectation was to find that Staubus' advocacy of an explicit cash orientation to decision usefulness was influential in shaping the key recommendations in the Trueblood Report, but, as will be seen, this was apparently not the case.

3. Origins of the Study Group

The Study Group on Objectives of Financial Statements, known as the Trueblood Study after Robert M. Trueblood, its chairman,[4] had its inception early in 1971. It resulted from a crisis over the fate of the AICPA's Accounting Principles Board (APB) following its approval, amid great pressure from within and outside the profession, of its heavily compromised Opinions 16 and 17 on accounting for business combinations and intangible assets in August 1970 (Zeff, 1972, pp. 212–216). In the same month, James Don Edwards, the incoming president of the American Accounting Association, the organization of accounting academics, was sufficiently concerned over the APB's performance that, with executive committee approval, he immediately created a committee (known as Committee 42), chaired by David Solomons, to inquire into the feasibility and desirability of establishing a commission to look into the formulation of accounting principles.

[2] For a discussion of the evolution of the decision-usefulness approach in the literature, see the report of the AAA Committee on Concepts and Standards for External Financial Reports (1977, pp. 10–21).

[3] For a further discussion of ASOBAT and Statement 4, see Zeff (2013, pp. 278–281).

[4] In this paper, "chairman" is used because this is the form of noun used in all of the cited documentation.

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Then, in November 1970, the senior partners of three of the Big Eight accounting firms wrote letters to the AICPA board of directors or President Marshall S. Armstrong in which they were critical of the performance of the APB, especially on its handling of Opinions 16 and 17. The three firms gave a strong signal that they no longer had confidence in the APB. The letters were written within the space of one week in November. The letter writers were Ralph E. Kent, the managing partner of Arthur Young & Company (November 11); Harvey E. Kapnick, the chairman of Arthur Andersen & Co. (November 16); and Robert Trueblood, the chairman of the policy group of Touche Ross & Co. (November 17). Kent and Trueblood had both been president of the Institute during the 1960s, and Trueblood had served on the APB. Kapnick headed the firm that had long been critical of the Institute's Committee on Accounting Procedure and the APB for their failure to address forthrightly the major accounting issues of the day. In a recent speech, Trueblood had also pronounced himself disappointed with the APB's record of achievement (1970, p. 62).

One concern to Trueblood and perhaps to others who were critical of the APB was a recent court decision, the Continental Vending case,[5] where a respected federal jurist ruled that the auditor's judgment about what constitutes GAAP does not necessarily mean that the financial statements "present fairly." The worry was that GAAP was losing some of its force.

Trueblood went so far as to assert, after citing a number of concerns, that, "In the case of our own firm, we are presently reconsidering our entire participation in the affairs of the [APB]."

In his letter, Kent pointedly referred to critical remarks about the APB recently made by Commissioner James J. Needham of the Securities and Exchange Commission (SEC), a CPA, at a meeting of the AICPA's Committee on Relations with the Securities and Exchange Commission and Stock Exchanges. He also cited "the not-infrequent public criticism of the [APB] by members of the Institute, by academicians, by analysts, by corporate executives."[6] Kapnick and Trueblood seriously questioned whether the APB, as organized and constituted, could be a viable body to establish accounting principles. Kapnick argued that the APB could not carry out its mission until it defined the objectives of financial statements. Indeed, George R. Catlett, Kapnick's partner who served on the APB, had dissented to APB Statement 4, because, he said, it was a generalization based on accepted practice and not a sound prescription for future practice. As noted above, Statement No. 4 was originally intended to be a mandatory Opinion but in the end was downgraded to a non-binding Statement (see Moonitz (1972)).

In their letters, both Trueblood and Kent said that the AAA's decision in August to create a special committee to determine whether a commission should formulate accounting principles underscored their concern that the Institute itself must re-examine how accounting principles should be established.

Institute President Armstrong sensed a brewing crisis. Not only was he alarmed by the strong letters from the three firms, but he also was incensed that the AAA, by appointing Committee 42, was trespassing on the Institute's turf, and he made this known to AAA President Edwards (Edwards, 2010, pp. 188–189). Even before the AAA's committee had reported, Armstrong, after hurriedly consulting with the Institute's board of directors,[7] sent out a letter dated December 21, enclosing an agenda paper and copies of the letters from the three Big Eight firms and other documentation, in which he called for an emergency meeting on January 7–8 in Washington, DC of 35 prominent CPAs from 21 accounting firms.[8] Leonard M. Savoie, who was then the AICPA's executive vice-president and who attended the meeting, later characterized it as "clandestinely arranged" (1975, p. 199). The agenda for the meeting was all about the best way forward to establish accounting principles and to "unite the accounting profession" in reexamining how to find a viable answer. One of the many questions which President Armstrong posed in his letter was whether the Institute should cooperate with the AAA if its Committee 42 were to recommend such a commission. He also asked whether "the lack of a clear definition of the objectives to be served by financial statements" has seriously hampered the establishment of accounting principles – which was the only reference to objectives in his long letter. In a report on the meeting, Armstrong was quoted as saying in his opening remarks, "If we are not confronted with a crisis

[5] *United States v. Simon*, 425 F.2d 796 (2d Cir. 1969).

[6] Criticism of the APB had become widespread by 1969. See Olson (1982, pp. 3, 64–65).

[7] Minutes of meeting of AICPA board of directors, December 3–4, 1970, item 19 (in the author's files).

[8] Armstrong's letter plus the enclosures ran to 46 pages (in the author's files).

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of confidence in the profession, we are at least faced with a serious challenge to our ability to perform a mission of grave public responsibility" (Conference on Accounting Principles, 1971, p. 1).

On January 8, the AAA's Committee 42 submitted its report in which it unanimously recommended setting up a commission and outlined its organization and functions (The Role of the American Accounting Association in the Development of Accounting Principles, 1971), and in February the AAA's executive committee unanimously endorsed the committee's recommendation in principle. Robert Trueblood then told Marshall Armstrong that he would be supportive of the commission recommended by the AAA if the Institute were not to act.[9] This view expressed by Trueblood would surely have emboldened Armstrong to find an Institute solution, and not defer to the AAA.

At the Institute's hastily called meeting on January 7–8, following nearly ten hours of discussions, those in attendance recommended that the president appoint two independent study groups. One was "to explore ways of improving the Institute's function of establishing standards of financial reporting," and the other was to "seek to refine the objectives of financial statements" (Conference Recommends, 1971). While the proximate reason for calling the emergency meeting was to review the Institute's role and process in establishing accounting principles, there was also at the meeting an expressed dissatisfaction that the APB had failed to agree on a desired foundation, or a set of normative objectives, for establishing accounting principles. This concern over the lack of agreement on the objectives of financial statements had been given vent in the letter from Arthur Andersen & Co.

Institute President Armstrong again consulted with his board of directors, and in March he announced the appointment of two study groups. A study group headed by former SEC Commissioner Francis M. Wheat, a lawyer, was to look into the process by which accounting principles are established,[10] and a study group chaired by Robert Trueblood was to recommend the objectives of financial statements (Wheat, Trueblood Head Studies, 1971). Hence, the Study Group on objectives was created almost as a by-product of the high-wire controversy over how to establish accounting principles.

4. Formation of the Study Group

Some of the background and previous views expressed by Robert Trueblood may be useful to set the stage for his chairmanship of the Study Group. He had served as Institute president in 1965–66 and was a senior partner in Touche Ross & Co. As chairman of the policy group, he headed the Chicago branch of his firm's executive office, and he had attended the Institute's emergency meeting on January 7–8. He was a widely respected leader of the profession who was known for being an independent thinker and for his keen intellect. Trueblood had chaired the Institute's Committee on Long-Range Objectives from 1962 to 1964. In his 1970 speech, mentioned above, he was critical of the APB's program to search for basic accounting postulates and broad accounting principles – "an attempt to define basic philosophy," as he called it (1970, p. 62). As early as 1964, he urged that the definition of financial accounting must go beyond its historic confines and embrace "the measurement and communication of all economic and quantitative data" (1964, p. 5). At a major conference in 1968, he argued that "A brief statement of the general objectives and purposes of financial accounting should be issued by the Board" (1969, p. 222). Speaking at the AAA's annual meeting in 1969, he said that "The lack of a set of consistent objectives – and the absence of a statement of the basic purposes of financial reporting – are, in my view, a main reason for the present piecemeal approach to the Board's work.... To formulate acceptable practices on a piecemeal basis without an overall framework of objectives into which they fit is, in my judgment, putting the cart before the horse" (1970, p. 63). He distinguished between the APB's earlier failed attempt "to develop a comprehensive system of accounting philosophy" and "the development of a statement of accounting objectives." Hence, Trueblood had been amply on record as favoring a statement of objectives at the time when Armstrong was looking for the chairman of a study group to undertake just such a project.

To head his full-time staff, Trueblood chose a close friend, George Sorter, a forceful personality who was professor of accounting at the University of Chicago, as director of research. In turn, Sorter

9 Interview with George H. Sorter, August 13, 2014.

10 For a discussion of the work of the Wheat Study, see Zeff (2015).

brought Joshua Ronen, an assistant professor of accounting at Chicago, on board as associate director of research. Trueblood was comfortable in the company of academics, and he had been close to the Institute of Professional Accounting (IPA) at the University of Chicago's Graduate School of Business (GSB), which had been directed by Sidney Davidson. He was succeeded by George Sorter beginning in 1969, after Davidson became dean of the GSB in 1968. When the IPA launched the Journal of Accounting Research in 1963, the Touche Ross Foundation began making an annual contribution toward its support, as well as for the IPA's annual Empirical Research Conference, beginning in 1970 (Davidson, 1984, pp. 284–285). Indeed, at the beginning of 1971 the Chicago business school announced his appointment as professorial lecturer in accounting (Trueblood is Named, 1971). Moreover, Sorter's location in Chicago made it convenient for them to confer regularly. Sorter had been an influential member of the ASOBAT committee, and he had also been a member of the AAA's Committee 42, mentioned above, which recommended setting up a commission to establish accounting principles. The remainder of the full-time staff will be introduced below.

Sorter's close association with Trueblood is important to understanding his key role in the work of the Study Group. Beginning in 1966, and except for 1968–69 when he visited the University of Kansas, Sorter worked closely with Trueblood.[11] In 1969, he became a senior consultant to Trueblood and occupied a partner's office next to his in the Chicago branch of the firm's executive office. He spent one day a week in the Touche Ross office. They exchanged ideas on many issues, and Sorter provided advice in the development of Trueblood's speeches.

Trueblood consulted closely with Sorter when recommending to Institute President Armstrong the members of his Study Group: a mixture of academics, practitioners, and financial executives. The three academics were Sidney Davidson, the dean of Chicago's business school; James Don Edwards, an accounting professor at Michigan State University (representing the AAA, of which he was president)[12]; and Ezra Solomon, a finance professor at Stanford University. Davidson had served on the APB for five years and as the AAA president in 1968–69. From 1969 to 1972, he was a member of the Institute's Council. Trueblood had met Davidson in the 1950s, when the latter was at Johns Hopkins University. Davidson moved to the University of Chicago in 1959, and Trueblood deepened the relationship after moving, himself, to Chicago in 1961. Davidson was a disciple of William A. Paton, who was a strong advocate of replacement cost accounting (Zeff, 1979).

Trueblood wanted an economist to serve on the Study Group, and Ezra Solomon had taught finance at Chicago from 1956 to 1961 before moving to Stanford. But then, in May 1971, shortly after Solomon's appointment to the Study Group but before its first meeting, President Richard M. Nixon tapped him to serve on the Council of Economic Advisers (Stanford Man Reported New Economic Adviser, 1971). Thereupon, Solomon was replaced on the Study Group by Richard M. Cyert, an economist, statistician and organization theorist who was dean of Graduate School of Industrial Administration at Carnegie-Mellon University,[13] whom Trueblood knew well when he had headed the Pittsburgh office of his firm during the 1950s, and with whom he coauthored a book in 1957. During 1960–61, Trueblood took a year's leave from his firm to be Visiting Ford Distinguished Research Professor at Carnegie.

The practitioner members were two from public accounting and one from financial analysis. The public accountants were Oscar S. Gellein, of Haskins & Sells, and Frank T. Weston, of Arthur Young & Company, both based in New York City. Gellein and Weston were highly respected as accounting thinkers, and Gellein was a onetime accounting academic (see Gellein (1972)). In 1971, Gellein chaired the AICPA's Committee on the Securities and Exchange Commission and Stock Exchanges. Weston had served for seven years on the APB, and Gellein had for five years been the adviser to a senior partner in his firm at APB meetings. Gellein was to become a member of the APB in January 1972. C. Reed Parker,

[11] In 1968, Trueblood and Sorter collaborated in publishing a volume which collected William W. Werntz's papers. Werntz had been one of the original partners of Touche Ross.

[12] Edwards has written that Marshall Armstrong had first invited him to serve on the study group on the establishment of accounting principles, but he declined to do so because, as AAA president-elect, he was the one who had appointed Committee 42. Armstrong then asked Edwards to serve on the objectives study group, an assignment which he accepted (2010, pp. 191–192). Edwards spent 1971–72 as dean of the business school at the University of Minnesota and then went to the University of Georgia as a professor of accounting.

[13] In 1965, Carnegie Institute of Technology formed a union with Mellon Institute of Science to become Carnegie-Mellon University. In July 1972, Cyert became president of the university.

vice-president and a director of the Chicago investment advisory firm of Duff & Phelps, Inc., was the financial analyst. He was president of the Financial Analysts Federation (today known as CFA Institute) and was also a member of the Illinois Bar.

The two financial executives were Andrew J. Reinhart, vice president-office of the president of The Singer Company, Inc., New York City, and Howard O. Wagner, executive vice-president, finance of Jewel Companies, Inc., which, as it happens, was a Chicago client of Touche Ross.

All of the Study Group members but Cyert and Parker were CPAs. Parker liked to say that he was the only member without a CPA or a Ph.D. (Parker, 1975, p. 4). Of the nine members, Trueblood, Davidson, Parker and Wagner were located in Chicago. And, of course, Sorter and Ronen were in Chicago. Trueblood wanted all of the Study Group's meetings to be held in Chicago, which clearly influenced the selection process. Reinhart, Gellein and Weston evidently did not mind commuting from New York City.[14]

Trueblood had insisted that the full-time staff include representation from the accounting firms. In addition to Sorter and Ronen, the full-time staff consisted of three senior managers in their firms: R. Michael Shannon, of Arthur Andersen & Co.; Robert G. Streit, of Ernst & Ernst; and Martin S. Gans, of Touche Ross. All were based in Chicago. Gans served as administrative director and regularly attended the Study Group's meetings. He also participated with Sorter in the writing of staff research papers and in drafting the report, often on delicate ''political'' issues. Gans had written many of Trueblood's speeches in the firm. Paul Rosenfield, a project manager in the accounting research division of the AICPA, based in New York City, was also on the staff. He had been the principal draftsman of the APB's Statement 4, and he made his major contribution by writing a paper on stewardship reporting, which is mentioned below.

During the Study Group's two-day meetings, held monthly over a period of two years, Trueblood, Weston, Gellein, and Davidson were the most active in discussion, with Parker also as a keen participant. Trueblood was a man possessed of strong views, which he aired, but he saw his role mostly as a unifier and conciliator, so that, in the end, a unanimous report could be agreed upon.[15] Toward that end, the Group would take no votes on substantive issues in the course of its deliberations (Parker, 1975, p. 33). There would be one vote, on the final report. This consensualism perhaps came from the influence of Trueblood's father, who was a Quaker (Bryson, 1976, pp. 7–17). Oscar Gellein, who stepped in as vice-chairman when Trueblood could not attend, also did much to bring the parties together. Edwards and Cyert, and especially Reinhart and Wagner, played much less active roles in the discussion. Yet Sorter was frequently in touch with Cyert in the course of the drafting.

Sorter, Ronen and Gans met daily in Chicago to discuss issues, organize the planning of the report, and develop drafts. Shannon and Streit met weekly with them during the first year, but, because of increasing client responsibilities at their firms, were able to devote only part-time to the Study Group's work in the second year, but nonetheless were major contributors. Rosenfield made few trips to Chicago but talked with the staff via a speaker phone. Sorter has said that he himself, Gans, Shannon and Streit were the principal draftsmen of the report.[16] Ronen took a leave from the Study during the 1972–73 academic year, when he visited the University of Toronto, thus missing out on most of the final drafting. Yuji Ijiri, of Carnegie-Mellon and a close colleague of Cyert's, attended the Study Group meetings regularly as a staff member. Following issuance of the Study Group's report on October 5, 1973, member Reed Parker praised the staff support as ''extraordinary'' and referred to Shannon, Streit and Gans as ''three bright public accountants on the verge of partnership in their respective firms'' (1975, p. 32), and all three did become partners within the following year. Parker said of the staff: ''They never got their noses in where they didn't belong, they were exceedingly nonpartisan as far as I could see, and they stretched as far as they could to accommodate everybody's views.''[17] Study Group member Sidney Davidson also applauded the work of the staff. Overall, he wrote, ''The work of the Study Group represents an awesome investment of time, talent, and money'' (1973, p. 5).

[14] Interview with Martin S. Gans, February 18, 2002.

[15] Interviews with Sidney Davidson, July 27, 2001; and with Joshua Ronen, March 26, 2001.

[16] Interview with George H. Sorter, August 13, 2014.

[17] Interview with C. Reed Parker, March 29, 2001.

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The Study Group also drew on several consultants and observers, composed of five academics (including a law academic) and partners in two Big Eight accounting firms.[18] The only Big Eight firms not represented on the Study Group, on the staff or among the consultants and observers, were Peat, Marwick, Mitchell & Co. and Price Waterhouse & Co.

5. Charge to the Study Group

In the charter for the Study Group, the AICPA's board of directors charged Group "to refine the objectives of financial statements" (Objectives of Accounting Study Groups, 1971, p. 70). Chapter 4 of APB Statement 4, "Objectives of Financial Accounting and Financial Statements," was mentioned as "a logical starting point for a study to refine objectives, but the study should not be limited to a refinement of Statement 4" (pp. 70–71). The charge acknowledged that Statement 4 "contains objectives in terms of what is considered acceptable today rather than in terms of what is needed and what is attainable to meet these needs" (p. 71). This assertion in the charge was not correct, as the objectives in Statement No. 4 were normative propositions.

The study was to answer at least the following questions (p. 71):

Who needs financial statements?
What information do they need?
How much of the needed information can be provided by accounting?
What framework is required to provide the needed information?

The study was to "distinguish between objectives and mechanisms for achieving objectives" (p. 71).

The Study Group was to hold one or more public hearings and "should obtain the views of as many interested parties as possible and should make sure that views are obtained which are representative of all segments of our society" (p. 71). It was to report its conclusions to the board of directors by August 31, 1972 and was to render progress reports on August 31, 1971 and March 31, 1972. As will be seen, the date for the submission of the final report was naïvely optimistic for such a wide-ranging project.

6. Work plan for the Study Group

In October 1971, Chairman Trueblood gave a talk at a financial reporting conference at Northwestern University, and he related the Study Group's progress and plans after its first six months.[19] He said that, as a first step, the staff combed the accounting literature, and he said: "we found what we feared. There is a dearth of accounting literature dealing explicitly, or even implicitly, with accounting objectives." The staff also reviewed the literature in such disciplines as financial analysis, economics, and the behavioral sciences, which led to the conclusion, he said, that "The answers are not in the library. We will have to discover them ourselves" (Trueblood, 1972, pp. 38–39). Yet Study Group member Sidney Davidson reported that "Our staff analyzed recent economic and financial theory, especially the extensive work on portfolios and stock market prices and how financial statements relate to them. This conceptual examination was fruitful, provoked thoughtful analysis, and tended to broaden the perspective of the Study Group members" (1973, p. 6).

Trueblood said that the Study Group then began conducting a series of in-depth interviews with business leaders and decision makers. About 50 such interviews were held (Shannon, 1975, p. 33). Each interview lasted at least two hours and was attended by one or two members of the staff and sometimes also by a Study Group member. Prior to each interview, the interviewees were sent an

[18] The list of the Study Group members, the staff, and the consultants and observers appears in the front of the Study Group's final report (Study Group on the Objectives of Financial Statements, 1973).

[19] This paper was virtually identical to Trueblood's address to the 84th annual meeting of the AICPA, held in Detroit on October 11. The Institute kindly supplied the author with a typescript of this address. For a few quotations from his address, see Chairmen Trueblood and Wheat Discuss Objectives of Accounting Study Groups (1971).

Interview Guide (1971), which enumerated 53 questions across six categories of issues on which the Study Group sought advice (Trueblood, 1972, p. 39). No transcripts from the interviews were placed on the public record nor, as far as is known, have any been preserved. Trueblood also said that the Study Group had invited each state society of CPAs, over 50 governmental, business and professional organizations, 100 international accounting organizations, 100 AICPA member firms, and scores of university academics to participate in its work by making written submissions (Trueblood, 1972, p. 40). Indeed, it was reported in Touche Ross TEMPO: "Over 4500 organizations and individuals were formally invited to transmit position papers to the Study Group" (CPAs Investigate Financial Reporting, 1971/72, p. 22). Contacts were made with accounting groups not only in the United States but also elsewhere in the world (Shannon, 1975, p. 33).

Among the many individuals and organizations interviewed were the SEC's accounting staff and Ezra Solomon, at the Council of Economic Advisers.

Trueblood said that the Study Group would hold two public hearings, in Chicago and New York City. The staff's literature review, the submissions received, and a summary of the interviews were distributed to the Study Group members (Shannon, 1975, p. 35).

In his speech given in October 1971, Trueblood made it clear that the Study Group had interpreted its charge broadly and "is not limiting itself to the consideration of objectives that are implied by present practice or by presently accepted accounting principles. Similarly, the Group is not confining itself to consideration of objectives which would be compatible only with present methods and forms of attestation" (1972, p. 40). To illustrate this venturesome approach, he said that the Group was considering objectives that would contemplate:

(a) the possible disclosure of the impact of social costs and social benefits in financial statements;
(b) the possible measurement and disclosure of opportunity costs; and
(c) the possibility of furnishing different statements to different users (pp. 40–41).

Trueblood also said that the Group was giving consideration to the following (p. 41):

(a) the possible need for forecasts and budgets as part of basic financial reports;
(b) the possibility of presenting the financial health of business in other than historical transaction terms;
(c) the possibility of the use of such measures as replacement costs, exit values and discounted cash flows; and
(d) the possible utilization of different forms of appropriate attestations.

Although he conceded that some of these issues "have been *and are* anathema to accountants," the Study Group was considering them nevertheless. The Group believed, he said, that the accounting profession must prepare itself for changing times, and therefore it hopes "to set forth a framework within which accountants can anticipate issues before they reach the critical stage" (1972, p. 41; emphasis in the original).

In a booklet widely distributed by the Study Group during the summer of 1971, it spelled out the broad scope of its inquiry for all to see:

> The Study Group will consider what information should be presented in financial statements, what methods or bases of measurement should be used, and what forms of presentation would be most useful. Accordingly, the Group may well consider the applicability of historical cost, current values, private and social costs and benefits, and forecasting and budgeting (An Invitation. . ., 1971, pp. 2–3).

The booklet and Trueblood's speech were the first outward signs that the Study Group was not limiting its inquiry to objectives alone. Sorter recalls that "there was never any doubt by either [the] committee or staff from the very beginning that measurement and forecasts needed to be considered and included to make objectives meaningful."[20] Indeed, the AICPA's charter for the Study Group, written by

[20] Communication from George H. Sorter to the author, dated May 6, 2014.

its board of directors, said, "The study will require consideration of criteria for determining what resources and obligations should be recorded, when they should be recorded, how they should be measured and how the changes in recorded amounts should be reported" (Study Group on the Objectives of Financial Statements, 1973, pp. 67–68). This charge does not sound as if the board of directors envisioned a study confined just to objectives.

The Study Group invited written presentations from interested parties to be submitted by December 31, 1971. Those wanting to participate in the Group's public hearings were asked to make their written presentations by February 15, 1972 if they had not already submitted them by the December deadline (see also Comments Solicited, 1971).

7. The public hearing

Rather than hold two public hearings as planned, in Chicago and New York City, the Study Group decided to hold a single, 2½-day public hearing in New York City, which was an easier venue to reach for most of the companies, firms, and associations expressing an interest in giving oral testimony. The hearing was held on May 15–17, 1972 in the Americana Hotel in midtown Manhattan. All of the Group members were present during all or most of the hearing, and the majority of the Group attended throughout the hearing. The staff was also in attendance but seldom spoke. The typescript proceedings ran to 232 pages (Public Hearing, 1972). It was reported that some 200 persons attended, in addition to those giving testimony, and that written questions were submitted to the Study Group from the floor.[21]

A total of 24 delegations made presentations during the hearing, including representatives of five of the Big Eight firms. Haskins & Sells and Touche Ross did not present because, one supposes, each had a partner serving on the Study Group. Yet Arthur Young, which was also represented on the Study Group, did present. Peat, Marwick, Mitchell & Co. was the only other Big Eight firm that did not give testimony. Chairman Trueblood allotted 45 min to each delegation, but on the final day, because the presentations had been covering much the same ground, he reduced the allocation to 40 min.

7.1. Written submissions[22]

Most of the companies, firms, and associations giving oral testimony had submitted a written expression of their views prior to the hearing, but, unhappily, all but a few of these papers have not survived. The prior submissions of the following accounting firms have been obtained from various sources: Ernst & Ernst, Alexander Grant & Company, Peat, Marwick, Mitchell & Co., Price Waterhouse & Co., and Arthur Young & Company.[23] One can discern from the submissions of these five firms that the Study Group was confronted by a substantial diversity in points of view.

Of these five accounting firms, Ernst & Ernst was the most conservative (1972). The firm wrote, "To avoid confusing those who understand and use corporate financial reports, we urge that financial statements continue to be presented on a basis familiar to their users; that is, as an integrated set of financial statements without multiple column disclosure of alternate valuations or required supplemental financial statements prepared on another valuation basis" (p. 2). It added, "We reject the undocumented arguments of those who contend that current values of one kind or another provide more relevant information for investors and creditors" (p. 4). Only in "rare and unusual" circumstances, where in the opinion of the company's management and independent accountants such disclosure is justified, it said, would even supplementary financial statements prepared "on a basis of historical cost adjusted for general price level changes" be desirable (p. 2). The firm cautioned that any supplementary disclosure of "non-transaction" information should "be supported by reasonably objective evidence" (p. 1).

[21] For news reports on the public hearing, see Nolan (1972) and Randall (1972).

[22] For news reports about the accounting firms' written submissions, see Excerpts (1972), Cooper and Guy (1973) and Williams (1973). For an attempt to trace the 12 Objectives to the written submissions, see Most and Winters (1977).

[23] Two firms, Arthur Andersen & Co. and Coopers & Lybrand, produced a small book and a booklet, respectively, setting forth their views, but they were not published until after the public hearing. They will be discussed below.

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Arthur Young was also cautious, saying that "Financial reporting should, with limited exceptions, be based on historical cost and completed transactions" (1972, Point no. 4). It added that "current valuation or pricing is appropriate (a) for assets whose market price can be determined readily, objectively, and precisely, and for which there is a securities exchange or similar market capable of absorbing promptly the quantity of the asset held, or (b) in situations where the use of current values is a legal or practical necessity (e.g., in the case of open-end investment companies)" (Point no. 4). The firm added, "there is merit to considering supplementary disclosure of estimated values of major asset holdings if such values can be determined by reasonably objective and generally accepted methods" (Point no. 4). Yet the firm was willing to see a requirement for price-level accounting if the pace of inflation were to become a serious problem, as in recent years (Point no. 5). It also said, "Statements forecasting the future operations of an enterprise, if reliable, should be made available to investors, but they should not be part of the basic financial statements" (Point no. 6).

In a paper focused on defending historical cost accounting against its critics, Price Waterhouse argued that fair value is neither practical nor definite and that "Replacement cost is a spurious concept because replacement is simply not in the cards" (1971, p. 10). The firm seemed to confuse general price-level accounting with replacement cost accounting. It added, "Lack of objective measurement need not be the determinant for omission from financial reporting. What is needed here, as everywhere in the accounting process, is understanding of the frame of reference and of the limitations. Where definiteness is a requisite, historical reporting is indicated. Where evaluation is desired, information must be given about prospects" (p. 7). Then: "We can define financial statements as being a reporting on past achievements and we can show separately, carefully identified on a pro forma basis, what plans have been made for the future" (p. 7). The firm would assign non-objective measures to supplementary disclosures (pp. 12–13). It also argued that "Conservatism has no validity as an accounting concept since it distorts short period results of operations" (p. 12).

By contrast, Peat Marwick adopted a decidedly more venturesome, even radical, posture: "The traditional view of accounting, in which it is seen as historical and financial in nature, stands in need of alteration and broadening at this point in time" (1972, p. 2). The firm said it generally endorsed the views expressed in a recent article by Robert K. Elliott (1972), then a manager in the firm's department of professional practice. In the article, Elliott wrote, "No sane person would advocate ignoring the important fact [in a decision] just because it is difficult to measure, yet this is precisely what accountants do when they report easily quantified financial data and ignore the difficult social and environmental data" (p. 26). "If we need measurement of a certain fact, a crude measure is better than none at all.... *Precise* measurement is necessary only when a fact is marginally important to a decision" (p. 26; emphasis in the original). He observed that "only persons who are inclined toward quantitative data, and who have a low tolerance for ambiguity, have been attracted into accounting" (p. 26). He proposed a series of reforms for accountants to undertake, including the following: "financial statements purporting to present current and historical information must be prepared on an economic basis, instead of the obsolete accountability basis. This implies the use of current values, fair values, and liquidating values in contrast to historical or price-level adjusted cost" (p. 27). At the conclusion of his article, Elliott made explicit his call for "the abandonment, as soon as possible, of historical cost basis financial statements" (p. 27).

In its submission to the Study Group, Alexander Grant, a major firm but not one of the Big Eight, counseled the accounting profession against becoming involved "in attesting to projections and forecasts (as distinguished from the accounting estimates inherent in all financial statements)" (1972, p. 12). It concluded, "In general, the accounting profession and management should move toward financial statements which present accounting information on the basis of fair values or price level indexes. A good first step in this direction might be to begin presenting selected valuation information in supplementary statements or schedules accompanied by the label 'not auditable'" (p. 13).

7.2. Testimony at the hearing

The Financial Analysts Federation (FAF) was the first to give testimony, and it seemed to catch most of the Study Group members off guard (that is, other than Reed Parker) by placing emphasis on cash flows and the use of "earning power," determined by making certain adjustments to reported earnings

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as a basis for judging the stability and sustainability of discretionary cash flows (1.15).[24] FAF was not interested in general price-level accounting or in fair values, except for assets about to be sold, such as land and merchandise inventories (1.28–1.31). FAF was interested in historical data that would provide a basis for forecasting the future but did not recommend the publication of managements' own forecasts (1.26).

One of the liveliest sessions was the presentation by the accounting firm of Laventhol Krekstein Horwath & Horwath on the subject of management forecasts (2.17–2.42), which included some close questioning by Reed Parker. The firm's delegation advocated the inclusion of such forecast information in the financial statements and that the auditor satisfy itself about the reasonableness of management's economic and business assumptions underlying the forecast. The firm also suggested that research be done into whether such forecasts might include ranges and likelihood ratios, a point which caught the interest of Chairman Trueblood with respect to other figures in the financial statements as well (2.21–2.26).

One of the issues discussed was the balance of interest in a company's financial statements as between the existing stockholders and potential investors. Ernst & Ernst's representatives argued that the former have the primary interest, as it is they to whom the auditor's report is addressed (2.101–2.105). The Arthur Young representatives, on the other hand, argued that "financial reporting should be responsive without discrimination to both present stockholders and future stockholders, as well as to present and future creditors" (4.49).

At the beginning of the second day, the Study Group heard Professor Lawrence L. Vance, of the University of California at Berkeley, who presented the views of a AAA task force which proposed the use of current cost accounting.[25] He came in for considerable grilling from Reed Parker and Frank Weston over the meaningfulness of current costs both to investors and managers. During the discussion, Oscar Gellein said that, in its interviews with sophisticated users, the Study Group "encountered no enthusiasm" for specific index-adjusted financial statements (3.25). Vance attributed such a reaction by analysts to their resistance to change (3.25–3.26). He suggested that specific indices and general price-level indices might well be coupled to determine how much of a change in current cost was caused by inflation (3.27).

Norman O. Olson, of Arthur Andersen & Co., said, "In our view, the overall purpose of financial statements is to communicate information concerning the nature and the value of the economic resources of a business enterprise…and the changes in the nature and value of those resources from period to period" (3.34). His firm, he said, defined "economic resources" as those being separable from the business, and thus excluded goodwill (3.34–3.35). The firm would recognize write-ups and write-downs in plant and equipment (3.37). The firm, he said, placed more emphasis on the balance sheet than on the income statement because current matching practices "plug the balance sheet with [improper] debits and credits" (3.40). George R. Catlett, who accompanied Olson, said, "To me what is so badly needed by the accounting profession is a compass and a North Pole to head toward" (3.43). Oscar Gellein liked the North Pole metaphor and followed up on it (3.46). Sidney Davidson responded to the Olson and Catlett testimony by saying, "I think I'm wholeheartedly in accord with your objectives but I'm not quite clear how we'd move in that direction" (3.55).

The Financial Executives Institute (FEI) favored stewardship reporting and the use of historical costs, and it opposed uniformity of accounting methods (3.69, 3.72). Reflecting on the Study Group's agenda of possible expansions of financial reporting, J. O. Edwards, representing FEI, said, "financial executives are cautious about embracing reporting innovations" (3.67).

At the end of the morning session, Robert Morris Associates argued for the publication of profit forecasts, yet Study Group member Andrew Reinhart contested the reliability of forecasts (3.98–3.103).

In the afternoon, Philip L. Defliese, the APB chairman and a partner in Lybrand, Ross Bros. & Montgomery, gave his views. He said that the Study Group should set as a long-range objective whether to introduce current values, intangible values, and personnel values into financial reports, but that a

[24] The parenthetical page references in this section are to the two-volume transcript of the proceedings (Public Hearing, 1972).
[25] No report of the task force was published. Its other members were Arthur E. Carlson, Raymond C. Dein, and A.N. Mosich. See Zlatkovich (1972, 400). Vance had been a member of the AAA's Committee to Prepare a Statement of Basic Accounting Theory.

major research project would be required to determine whether it is "theoretically possible" (4.7). He was particularly concerned about when changes in the value of assets should be taken into income (4.8–4.9). He was of the belief that different industries might require different realization concepts, citing the land development, oil and gas, and insurance fields (4.10). As an intermediate range objective, Defliese recommended that the Study Group consider general price-level supplementary information (4.12). In the question period, he made clear that "the balance sheet should be nothing more than the repository of our income statement determinations" (4.23).

Charles G. Gillette, of Arthur Young & Company, testified that his firm opposed the use of current values, although it favored the use of general price indices to render historical dollars in "today's money" (4.53–4.54). Underscoring Point no. 4 in his firm's written submission, he called upon a metaphor: "We believe that the transaction based, investor oriented accounting practices that have evolved in the English-speaking world are as valuable to the nation as our giant redwood trees, and we hope that you gentlemen will not chop them down to make way for an experimental farm" (4.54).

Testifying for Shell Oil Company, Robert L. Koons said that his company believed that any statement on objectives "should include an unequivocal affirmation" of the accounting standards of "historical cost, realization, conservatism, and consistency with prior reporting periods" (4.75). He argued that present value is "impractical" (4.76). He did support a disclosure of price level adjustments outside of general purpose financial statements (4.80). He opposed the publication of profit forecasts (4.81).

William Foster and Merle Wick, representing the New York Stock Exchange, called for a clearer definition of extraordinary items, better segment reporting, and a stronger enforcement role by the accounting profession (5.4–5.10). As to the use of fair value accounting, Foster said, it "does not seem to us to be a panacea" (5.4).

Charles I. Derr, of the Machinery and Allied Products Institute (MAPI), drew attention to a difference among some of the presenters over the intended audience of financial statements. He observed that, while the Financial Analysts Federation maintains that financial statements are intended for actual and potential investors, MAPI agreed with Ernst & Ernst that "The requirements of potential or only possible interests must be regarded as secondary" (5.24–5.25). He said that "regular financial reports of a corporation are designed primarily for stockholders, and secondarily for bankers, security analysts, and others" (5.25). He criticized the Study Group for not meeting with a representation of ordinary stockholders when it met with interested parties (5.26). MAPI opposed segment reporting (5.25), a disclosure of the impact of social costs and social benefits in financial statements (5.26), and the inclusion of forecasts and budgets in financial statements (5.26–5.27).

Duane R. Borst, of Inland Steel Company, disagreed with MAPI and said that company management has "a primary responsibility to its owners, both present and prospective" (5.46). He called for more research before the accounting profession could embrace current value accounting (5.46). And he said that social costs should not be included within the ambit of financial reporting (5.47, 5.50). Although he said he once espoused the publication of earnings forecasts, he now recommends, because of the legal liability problem, "additional research and a great effort in public education, at least to the investing public, before we adopt this risky step" (5.49).

Rudolph J. Passero, of the National Society of Public Accountants, which represents practitioners that serve small businesses, said that "financial reporting, generally speaking, should be based on historical cost and completed transactions" (5.68). Current values, budgets, and forecasts might well be presented in supplementary disclosures to the financial statements for the benefit of both management and credit grantors (5.69, 5.75).

Henry P. Hill, of Price Waterhouse & Co., was the last of the presenters. He talked in general terms, placing emphasis on the need to develop a "frame of reference" for financial statements "so that those who compile them, those who read them, and those who analyze them have the same understanding" (5.98).

Of the members of the Study Group, Frank Weston was the most persistent questioner, followed closely by Reed Parker, Robert Trueblood, Oscar Gellein, and Sidney Davidson, and then by James Don Edwards and Richard Cyert. Andrew Reinhart and Howard Wagner seldom spoke.

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It is noteworthy that many of those who testified at the hearing focused more on the contents of the financial statements than on their objectives. And the focus of not a few of the speakers was on the long-standing, contentious issue in accounting of historical cost versus current value.

George Sorter has said that the hearing "had no impact whatsoever. Everybody's view was predictable and known."[26] Davidson and Parker agreed.[27] The Study Group's members and staff had already held private meetings with many of those who gave testimony at the hearing. In this article, it is necessary to present a rendering of the views expressed in the submissions and at the public hearing in order to provide the reader with some sense of the diversity of positions held by interested parties, because there are no surviving transcripts or other records of the great many interviews and other private meetings conducted by the Study Group.

8. Two further Big Eight firms issue publications on their views

As noted above, Arthur Andersen & Co. and Coopers & Lybrand published a small book and a booklet, respectively, but not prior to the Study Group's public hearing, setting forth their rather progressive views on the objectives of financial statements. Later in 1972, Arthur Andersen issued a 130-page book, stating that "Financial statements must be fair to all users and should provide the basis for resolving [their] conflicting interests in a manner that recognizes lawfully established economic rights and interests" (p. 8). The firm concluded that "the overall purpose of financial statements is to communicate information concerning the nature and value of the economic resources of a business enterprise. . .and the changes in the nature and value of those resources from period to period" (p. 116). This meant that "when there is an obvious and significant divergence between historical cost and current value [of assets]" (p. 53), accountants should consider using realizable values, replacement costs, or discounted cash flow, as appropriate (pp. 53–56). The firm argued that unrealized holding gains and losses, reduced by the effects of significant inflation, should be included in earnings (pp. 70, 118).

Coopers & Lybrand's 22-page booklet, published in 1973, was billed as an elaboration of the testimony of Philip Defliese, its managing partner, at the Study Group's public hearing in May 1972.[28] The firm addressed a very wide range of issues in the booklet. It said that the "fundamental purpose of financial statements" was to "help the investor or potential investor make a timely decision as to whether to buy, sell, or hold a particular security investment" (p. 9). Investors, it said, need "a realistic determination of periodic income, past, present, and, *particularly, future*, presented on a comparable basis. The ultimate need for forecasts of at least one year is paramount because an investor should be more concerned with where his company is going than where it has been" (p. 10; emphasis in the original). As to current values, the firm said, "Some attempt must be made to reflect *current* estimates of values in addition to historical values and to give more recognition to intangible and human resources" (p. 11; emphasis in the original).

9. Development of the report

As with any commission or study group composed of part-time members and a full-time support staff, the staff can have a profound impact on the course of its deliberations and on the shape of the report. Indeed, at the outset Trueblood had invited Sorter to choose between serving on the Study Group and directing the staff, and he chose the latter because it promised greater influence.[29] The members of the Study Group, each with his own heavy responsibilities in their firms and companies and universities between meetings, relied heavily on the staff for research and the drafting of the report. The staff regularly reported on its research, and it drafted and redrafted successive sections of the report – all passed initially to Trueblood for his review – and the other Study Group members then reacted by suggesting small or large modifications. Davidson and Gellein have confirmed that Sorter played a major

26 Interview with George H. Sorter, March 26, 2001.

27 Interviews with Sidney Davidson, July 27, 2001; and with C. Reed Parker, March 29, 2001.

28 On April 1, 1973, Lybrand, Ross Bros. & Montgomery, together with its U.K. and Canadian member firms, changed their name to Coopers & Lybrand.

29 Interview with George H. Sorter, March 26, 2001.

role in drafting the report.[30] Trueblood wanted his own strong views reflected in the report, but he was also an adept mediator.[31]

George Sorter and Joshua Ronen came to the Trueblood Study Group with well-developed ideas about the framework for financial reporting. As noted above, Sorter had served on the ASOBAT committee in 1964–66. He favored the ASOBAT committee's recommended multi-column reporting – the display of both historical and current costs in the financial statements – because, in a setting where users' needs were not well specified, it would expand the reporting of relevant events.[32] Sorter said he believes that most of the other members of the ASOBAT committee, who were deliberating at a time when the recommended use of current costs or current values by academic researchers was in vogue (e.g., see Edwards and Bell (1961) and Sprouse and Moonitz (1962)), would have favored the inclusion of current costs to the exclusion of historical costs in the financial statements (Sorter, 1969, p. 12). Further, Sorter favored omission of the "qualitative characteristics" from the ASOBAT committee report, because they are characteristics of any reporting, and are not unique to accounting. In the end, however, he did not oppose their inclusion in the committee's report.[33]

Sorter was a proponent of the "events" approach to accounting theory, hereafter called "events theory." He presented it as a counterpoint to the "value" school or what might also be called the "user need" school which led to the matching of costs and revenues. He wrote, "Instead of producing input values [e.g., current costs] for unknown and perhaps unknowable decision models directly, accounting [should provide] information about relevant economic events that allows individual users to generate their own input values for their own individual decision models" (Sorter, 1969, p. 13). Rather than aggregate accounting information, he argued, it should be disaggregated. He regarded this as a "first approach toward a new orientation for accounting theory" (Sorter, 1969, p. 18).[34]

Early in 1970, Trueblood had hired Joshua Ronen to work in his office on the development of a research project on current value accounting, a topic, Ronen recalls, which was of great interest to Trueblood. Sorter recalls that Trueblood's interest in the study came from Howard Ross, a senior partner in Touche Ross's Canadian firm (he was the grandson of the Ross of Touche Ross), who had been an outspoken advocate of current values, which included replacement cost as well as realizable value (Ross, 1969, pp. 110–113). Trueblood had promised Ross that he and Sorter would undertake research on the subject and, through Sorter, he obtained the full-time services of Ronen.[35] About a year later, Ronen, collaborating with Sorter, completed a working paper of some two hundred pages, in which they concluded that a combination of discounted cash flows and exit values, in parallel with traditional historical cost, was the optimal framework for a system of fair values, based on the economics and finance literature.[36] At first, Ronen recalls, Sorter was skeptical about the use of exit values, propounded by Chambers (1966) and recently by Sterling (1970), but he succeeded in convincing him that exit values were helpful in providing measures of opportunity cost and risk.[37]

In April 1972, Ronen and Sorter published an article, "Relevant Accounting," which grew out of the project they had just done for Touche Ross. In the article, they argued that "for accounting information to be of optimal utility to individual investors *as well as* to facilitate optimal allocation of capital resources in the economy, it should be useful for estimating the future cash flows of the firm and for identifying the risk associated with these cash flows" (Ronen and Sorter, 1972, p. 259; footnote omitted, emphasis in the original). George Staubus' writings on the need for accounting to enable investors to predict future cash flows were nowhere cited in the article. They made a case for reporting "(1)

[30] Telephone conversation with Oscar S. Gellein, March 19, 1999 and letter from Davidson to the author, dated April 20, 1999 (both in connection with previous research).
[31] Interview with Joshua Ronen, March 26, 2001.
[32] Interview with George H. Sorter, March 26, 2001.
[33] Interview with George H. Sorter, March 26, 2001.
[34] In his article, Sorter acknowledged the writings and thought of William J. Vatter, under whom he had studied at the University of Chicago, as the primary inspiration for his "events theory." George Staubus also was a student of Vatter's, as was Charles T. Horngren. Perhaps Vatter can be said to have been the father of decision-usefulness for external financial reporting. Vatter, in turn, had been inspired by Clark's "different costs for different purposes," which he propounded in 1923 (Zeff, 2008, pp. 197–200).
[35] Interview with George H. Sorter, August 13, 2014.
[36] Communication from Joshua Ronen to the author, dated December 21, 2007.
[37] Communication from Joshua Ronen to the author, dated December 21, 2007; interview with Joshua Ronen, March 26, 2001.

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forecasts of cash flows and the market rate of interest to obtain the [market-risk-determined] value of the firm; (2) [the] measurement of the exit values of the firm's assets and equities at various points of time, and forecasts of prospective changes in exit values; and (3) [the] measurement of past transactions" (Ronen and Sorter, 1972, pp. 278–279; footnote omitted). As a further extension of Sorter's "events theory," they advocated the reporting of "realizations" and "derealizations," which they defined as events that cause shifts from more risky assets to less risky assets and back again to more risky assets. "By and large," they wrote, "conversion from exit value of noncash assets to exit value of cash assets represents sales of assets and services, while conversion from exit value of cash assets to exit value of noncash assets represents purchase of assets and services" (Ronen and Sorter, 1972, p. 273). As will be seen, this argument, together with Sorter's "events theory," was the template for the section in the Study Group's report on the reporting of "earnings cycles." Although the article was not published until April 1972, the authors had propounded their model in a working paper before the Trueblood Study Group was appointed, and Robert Trueblood had seen the draft. Thus, prior to the setting up the Study Group, Sorter and Ronen had the opportunity of "educating" Trueblood on their thinking, and they recall that he was receptive – although it took some selling, because replacement cost was the one value notion that was not part of their "relevant accounting." Trueblood was at pains to explain to Ross the outcome of the research study.[38] For Sorter and Ronen, "relevant accounting," as well as Sorter's "events theory," turned out to be their framework for thinking about the development of the report they would shortly begin drafting for the Study Group. Paul Rosenfield recalls, "Sorter and Ronen seemed to put their ideological stamp on much of the drafting."[39] Ronen recalls that Trueblood, who, he said, agreed pretty much with the concepts and conclusions of "relevant accounting," knew well in advance of Sorter's and Ronen's intention to use it as a platform for developing the objectives.[40]

The Study Group's report presented a series of 12 statements of objectives, most building on their predecessors. The series of statements were not numbered, but they were summarized in Chapter 11. Sorter and Gans (1974, pp. 3–4) helpfully arrayed them into five tiers[41]:

Tier I – Basic objective
Tier II – Users and their needs (four objectives)
Tier III – Users' needs in terms of the enterprise issuing financial statements (two objectives)
Tier IV – Enterprise information satisfying these needs (one objective)
Tier V – Financial statements communicating this information (four objectives)

In an article, Sorter (1973) reviewed the Study Group's conclusions, how they were reached, and gave a personal evaluation of the underlying conceptual issues.

The "basic objective" was offered as the *raison d'être* for the entire exercise of preparing and issuing financial statements, and it flowed naturally from the Ronen-Sorter model and Sorter's own earlier work: "The basic objective of financial statements is to provide information useful for making economic decisions" (page 13).[42] This objective epitomized the "decision-usefulness" approach earlier championed by Staubus (1961) and argued also by Sorter (Horngren and Sorter, 1961). Trueblood himself had himself espoused a "decision-usefulness" view, arguing that "Accounting within the firm must concern itself more with integrating information flows with decision requirements" (Davidson and Trueblood, 1961, pp. 580–581).

Those who had regarded financial statements as being solely reports of stewardship to stockholders would likely have taken exception to such a broad-ranging objective, as the chairman of the Financial Accounting Standards Board (FASB) learned several years later. In an FASB survey of accountants and other interested parties, Chairman Marshall Armstrong said he was "astounded" at the finding that only 37 percent agreed with the Study Group's "basic objective." Twenty-two percent recommended "that it be rejected out of hand" (Armstrong, 1977, p. 77).

[38] Interviews with Joshua Ronen and George H. Sorter, March 26, 2001, and with George H. Sorter, August 13, 2014.
[39] Interview with Paul Rosenfield, September 13, 2003.
[40] Communication from Joshua Ronen to the author, dated December 21, 2007.
[41] Another paper, by Gans et al. (1974), published as a booklet by Touche Ross, also arrayed the 12 objectives into five tiers.
[42] Excerpts from the body of the Trueblood Report will be indicated by "page" or "pages."

In its next statement of objective, the Study Group may have slipped by asserting that "An objective of financial statements is to serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activities" (page 17). This statement made it sound as if the Study Group were mainly serving the interests of those who were underprivileged in the financial market, a position that hardly seemed to be consistent with a study aimed at investors and creditors as a generic community. Sorter and Gans (1974, p. 6), somewhat defensively, wrote that "it may be the most misunderstood of all the objectives." Sorter has since said that they were thinking of banks, which could command such information from prospective borrowers, while other users could not.[43] Beaver and Demski (1974, pp. 178–179) opined that "this objective requires, in effect, that when conflict situations arise, the disadvantaged individuals are to have sufficient power to achieve their wishes. Whether these individuals should possess such power is an ethical question...." Otherwise put, it was a social distribution issue and not really an objective of financial statements. In fact, neither Sorter nor Ronen supported its inclusion as an objective.[44] Reed Parker may have been the member who most championed this objective. He wrote, "As a professional investment analyst, I am especially proud of this Trueblood Committee finding because it recognizes the public interest in broad capital markets and the related desire to avoid enlarging the inherent advantage of the professional investor over the non-professional" (1974, p. 138). Oscar Gellein also seemed to be a supporter of this objective, as it "aims at fairness to all users" (1973, p. 31).

Through a series of iterations, the Study Group gradually elaborated on the basic objective and proposed the following two operational formulations of the objective – which have been the best known and most widely imitated of the 12 objectives by subsequent standard setters – (numbered Objectives 3 and 4 by Sorter and Gans (1974)):

> An objective of financial statements is to provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flows to them in terms of amount, timing, and related uncertainty (pages 20 and 62).
>
> An objective of financial statements is to provide users with information for predicting, comparing, and evaluating enterprise earning power (pages 24 and 62).

The report adds, importantly, that "Enterprise earning power has as its essence the notion of ability to generate cash in the future" (page 23). Sorter and Gans wrote, "Thus, users want to predict, compare, and evaluate cash-generating ability because directly or indirectly this is the explicit variable which determines ultimate cash flows to investors and creditors" (1974, p. 7).

Objectives 3 and 4 in the series of statements of objectives were the ones that were truly innovative in comparison with the previous AAA and AICPA attempts at formulating the objectives of financial statements, for they focused explicitly on enabling investors and creditors to predict future cash flows to the enterprise, and therefore eventually to them. Gans et al. (1974, p. 8) have opined that Objective 3 is in many ways the most important objective, and the author agrees.

When considering the set of users of financial statements, the Study Group reached a conclusion that had perhaps been unexpected by some of its members. It found that there was a great deal in common between investors in equity securities, creditors, managers, and employees: "Each user measures sacrifices and benefits in terms of the actual or prospective disbursement or receipt of cash" (page 18). Hence, it became a non-issue to designate a predominant user.

But agreement on the "cash flow" orientation was not easy. In the Study Group's early deliberations on their report, there was profound discord over the relevance of cash flows and of current values. Reed Parker, the financial analyst, argued almost from the start that current values and general price-level adjustments were of no interest to investors. He maintained that investors were interested solely in companies' dividend-paying ability, past, present and future (Parker, 1975, p. 11), which, as it happened, was in line with Ronen and Sorter's "relevant accounting." This mode of thought seemed to come as a shock to the accountants on the Study Group, who were not accustomed to discussing

[43] Interview with George H. Sorter, August 13, 2014.

[44] Interviews with George H. Sorter and Joshua Ronen, March 26, 2001.

financial accounting issues with a financial analyst present, let alone one who was not also a CPA.[45] Trueblood, for one, had a low regard for financial analysts.[46] The accountants on the Study Group at first confused Parker's argument with reporting cash instead of accruals. Apart from Staubus (1961), no one – not ASOBAT (1966), not the APB's Statement 4 (1970) – had been arguing in published writings, prior to Ronen and Sorter (1972), that decision-usefulness accounting meant enabling investors to predict future cash flows.

Parker's focus was on dividends, not also on the future cash provided to investors when selling their shares in the enterprise. The Study Group's report embraced both in Objective 3. It was essential to the argument in the report that an investor's ability to predict future cash flows to themselves presupposed that they would be interested in the enterprise's own cash-generating ability, which is what was set forth in Objective 4. It was the research staff who, going beyond Parker's concept of the centrality of dividends, developed Objectives 3 and 4 – the essence of the report's major recommendations. Sorter, in collaboration with Gans, Rosenfield, Shannon and Streit, elaborated on the concept of cash-generating ability and its relation to the objectives in "Earning Power and Cash Generating Ability," which appeared in Objectives of Financial Statements, Volume 2/Selected Papers (Cramer and Sorter, 1974, pp. 110–116), a companion volume to the report.

Martin Gans recalls, "When it turned out that the credo of financial analysts of how you value the firm essentially became the building block of the objectives Study Group report, which is cash flow analysis – we called it 'cash-generating ability' – that, I think, drove Trueblood up the wall, because here were the financial analysts who had the Holy Grail, not the accountants. And he really went after a lot of his friends in Chicago and asked, 'Is this the way it should be?' And they said yes. It took him many months to get over that."[47] To Gans, Parker had the "straightest and clearest vision of where we were going." After Parker made his cash flow analysis argument in one of the early meetings, it became a big hurdle for the accountants to get over. Gans added, "the other members looked at each other, and Parker said, 'You can't go anywhere else. When you get down to it, this is where you have to go.' He was very firm about it."[48] While Parker's view on the centrality of cash flows to the investor coincided with the future cash flow orientation of George Staubus, he says that he had not read any of Staubus' writings and did not know of him.[49] While Staubus' imprint on the academic accounting literature was undeniable, it is difficult to argue that his writings had an impact on the cash orientation adopted in the Trueblood Report. Indeed, the author invited Staubus to sit in on his interview with Gans, and he heard Gans reveal the important role played by Parker within the Study Group in establishing the centrality of enabling the investor to predict cash flows. He later acknowledged this revelation in Staubus (2003, p. 166).

To the accountants, on the other hand, the central issue of controversy at the outset of the deliberations was whether one or another form of current value should be reported in addition to, or in place of, historical cost. This disagreement recurred throughout the Study Group's many meetings, although the emotion which characterized the early encounters gradually dissipated with the passage of time. Edwards recalls that, if the Study Group had tried to adopt current value to the exclusion of historical cost, there would have been a significant fight. He said that he, Parker, and Gellein would have been very cautious on taking such a step.[50]

Parker said that he resisted departures from historical cost accounting, even for the effects of inflation. He said that "inflation affects companies differentially – certainly in different industries and sometimes even within the same industry. Ultimately, the analyst desires to compare future cash flows to owners of companies within a given industry and also of companies in different industries. Adjusting historical cost data differentially complicates the analyst's job."[51] Parker conceded that the Study Group, in the end, "ducked" the issue of accounting for inflation (1974, p. 139).

[45] The lone financial analyst, David Norr, who served on the APB was a CPA.
[46] Interview with Martin S. Gans, February 18, 2002.
[47] Interview with Martin S. Gans, February 18, 2002.
[48] Interview with Martin S. Gans, February 18, 2002. For Parker's ideology on this issue, see his article (1974).
[49] Telephone conversation with C. Reed Parker, June 10, 2014.
[50] Interview with James Don Edwards, March 12, 2001.
[51] Telephone conversation with C. Reed Parker, June 12, 2014.

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Reed Parker, who did not regard the inclusion or exclusion of value changes as a relevant question, took comfort in the following sentence in the statement of objective accompanying this controversy: "Changes in the values reflected in successive statements of financial position should also be reported, but separately, since they differ in terms of their certainty of realization," a view consistent with Ronen and Sorter (1972). To Parker, any changes in value should be reported separately so as not to obscure historical cost. His preference was really not to show current values anywhere in the financial statements.[52] Parker and Davidson, and perhaps most other members, interpreted "separately" to imply that value changes should be shown as supplemental information (Parker, 1974, p. 139; Davidson, 1973, p. 8). Gellein wrote, "Our views were unanimous, however, that no one value system taken as a whole and by itself furnishes maximally useful financial statements" (1973, p. 33).

The Study Group also concluded that current values "should. . .be reported when they differ significantly from historical costs" (page 36). Frank Weston subsequently wrote that "should" meant that enterprises were "urged" to do so (1974, p. 8).

Perhaps the major disagreement within the Study Group was the treatment of value changes (also known as unrealized holding gains and losses) in relation to earnings. On page 37 of the report, it is stated that the members "disagree on whether value changes should be included in earnings," as follows:

> Some [members] believe the objective should be to reflect current value changes in earnings. Others believe that inclusion of unrealized value changes in earnings may be desirable but is not now practicable. Still others believe that their inclusion is neither desirable nor practicable.

Davidson recalls that he and Weston were the most vigorous supporters of their inclusion, with Trueblood and Gellein going along but not convinced about its practicability.[53] The two financial executives felt strongly that their inclusion was neither desirable nor practicable.

The inclusion or exclusion of unrealized holding gains and losses from earnings has long divided accounting theorists. It is also discussed by use of the terminology, maintenance of financial capital or physical capital, a subject first treated at length, at least in English, by Henry W. Sweeney in 1930.[54]

Stewardship is taken up in Chapter 4, in a scant two pages. The report rejected a focus of financial statements on "stewardship," which was defined as the assessment of management responsibility for past activities. If reporting on stewardship were to be "the overriding accounting objective," the Study Group wrote, it "would reduce significantly the value of [financial] statements not only for predicting future earnings, but also for assessing accountability" (page 26). Such past events, the report said, "cannot be assessed without considering their probable outcome" (page 26). Thus, the Study Group said it preferred the term "accountability," which considers future potential as well as historical results, to the narrower stewardship. It said that "management's responsibilities are broader than those implied by stewardship alone" (page 25). The statement of objective was: "An objective of financial statements is to supply information useful in judging management's ability to utilize enterprise resources effectively in achieving the primary enterprise goal" (page 26). Stewardship was defended by Reinhart and Wagner but not by most of the other members.[55] In Volume 2/Selected Papers (Cramer and Sorter, 1974, pp. 123–140), Paul Rosenfield usefully contributed an essay on stewardship, including a literature review. He reproduced extracts of contending views on the treatment of stewardship in financial accounting.

Chapters 3 on "earning power" and 5 on "earnings cycles" were inspired by Ronen and Sorter's "relevant accounting" and by Sorter's "events theory," and "earnings cycles" was Sorter's innovation.[56] The enterprise's earning power represents its cash-generating ability, ultimately providing the cash to its owners (page 23). The Study Group then introduced earnings cycles, which trace the enterprise's

52 Interview with C. Reed Parker, March 29, 2001.
53 Interview with Sidney Davidson, July 27, 2001.
54 For an analysis of the differences among theorists on these two views, see Zeff (1962, pp. 616–625).
55 Interview with Sidney Davidson, July 27, 2001.
56 Interviews with George H. Sorter, March 26, 2001; with Joshua Ronen, March 26, 2001; and with Paul Rosenfield, September 13, 2003.

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progress from making "an actual or highly probable disbursement of cash" ("a realized sacrifice") to "an actual or highly probable receipt of cash" ("a related realized benefit") for its cash-generating activities (page 28). The progress toward the ultimate realization of the related cash benefit is divided into three stages: prospective (for example, the receipt of a customer's order), incomplete (when some or all of the sacrifices and benefits have not yet been realized), and completed (when all realizations have occurred) (pages 28–29). The completed earnings cycle most closely approximates the conventional income statement for product and service enterprises.

The Study Group members divided over the usefulness of the "earnings cycle" approach. On page 29 it is stated that some members believed that the notion of earnings cycle "represents a simplistic and/or impractical approach to the measurement of accounting earnings." One supposes that this belief was held most strongly by the two financial executives.[57] The report continues to say that "information about changes in value may provide the best current indication of the outcome of the cycle" (page 31). But it was then stated, "Different approaches to value determination of particular assets and liabilities seem desirable, since no single valuation basis approaches the ideal in every instance" (page 33). This conclusion deftly finessed the disagreement within the Study Group over various entry versus exit approaches to valuation, and thus made a unanimous report more attainable.

The report then discusses a statement of incomplete cycles (the statement of financial position[58]) and a statement of completed and partially completed cycles (the statement of earnings). These were the interpretive statements. The statement of financial position, which Sorter preferred to call the balance sheet, would "contain information concerning enterprise transactions and other events that are part of incomplete earnings cycles. Current values should be reported when they differ significantly from historical costs" (page 36). This statement, based on earnings cycles, epitomizes the influence of Sorter's "events theory." He explains, "the balance sheet is based on events, not on things. The balance sheet is the relationship between events that have occurred and related events that have yet to occur but are expected to occur. It is not about assets and equities but about the relationship of events." He adds, "That is the basis underlying the report. We are looking at events that are relevant to, and that influence, cash-generating ability and allow users to assess cash generating ability."[59]

The earnings statement "would include the results of cycles completed during the period, estimates of recognizable progress toward completion of incomplete cycles, and, in addition, changes in the potential results of incomplete cycles as they are indicated by value changes" (page 36). Sorter preferred to have the earnings statement focus on completed cycles only, that is, realizations, and there would thus be no related events that are yet to occur which could change the results. He believed it was more useful to report events that were a part of an incomplete project in the balance sheet (an "incomplete cycles statement"), and he wrote a paper on this "partitioning dilemma" in Volume 2/Selected Papers (Cramer and Sorter, 1974, pp. 117–122). He recalls that Trueblood, in an analogy with the "percentage of completion" method for long-term construction contracts, insisted on showing measurable progress for incomplete cycles in the earnings statement. Sorter said that this was the one battle he lost with Trueblood.[60]

In Chapter 6, the Study Group discussed and illustrated the comparative advantages of historical cost, exit values, current replacement costs, and discounted cash flows in terms of whether they tend to be directly helpful, indirectly helpful, or not helpful in fulfilling information requirements, without presuming to reach an overall conclusion as to which was the best in most circumstances. The information requirements are linked to "the user's need to predict, compare, and evaluate earning power" (page 41). While not discussed in the report, the use of some or all of these approaches to valuation would mean that the statement of financial position and statement of earnings would not necessarily "articulate" with each other. With these four proposed approaches, there was something in this chapter to appeal to all of the members. Davidson recalls that he, Weston and Trueblood, and probably Gellein, looked favorably on the notion of using a multiple valuation approach. Parker would have had

[57] James Don Edwards, for one, embraced the "earnings cycle" concept (1973, p. 24).

[58] James Don Edwards claims credit for recommending "statement of financial position" instead of "balance sheet." Interview with Edwards, March 12, 2001.

[59] Interview with George H. Sorter, August 13, 2014.

[60] Interviews with George H. Sorter, March 26, 2001 and August 13, 2014.

little reason to take a position, and Cyert and Edwards were somewhere in the middle. Reinhart and Wagner were opposed.[61] Sorter, who favored dual financial-statement columns for historical cost and current cost in ASOBAT, would also have favored this array of options.

Trueblood, at the beginning, thought the Study Group would move in the direction of recommending that different information, or at least different supplemental information, be provided for different users. But he eventually retreated from this view, and one can see places in the report where there is an implication that different supplemental information should be supplied for different users.[62]

The Study Group advocated, as a third financial report, a "statement of financial activities." This was an expansion on the funds statement which had just been mandated by APB Opinion No. 19 in March 1971, and it was, therefore, a recent development in required U.S. financial reporting. The Study Group noted, "An important purpose of this statement is to present an ordered array of financial activities to emphasize factual information about transactions, so that the user can make his own interpretation of their significance" (pages 37–38). This novel statement was to disclose only those activities that have significant cash consequences, "so ordered so as to stress such functional activities as purchasing, manufacturing, selling, leasing, and financing" (page 38). This statement "may disclose events not described elsewhere, such as purchase commitments and changes in sales backlogs, but it is not intended to disclose other events, such as significant value changes" (page 38). This, too, was a Sorter creation, based on his "events theory."[63]

At the end of Chapter 5, on pages 39–40, there is a discussion of the merit in supplanting single numbers in financial statements with the disclosure of "ranges of precision, reliability, and uncertainty." The report stated, "Measurements in terms of single numbers that do not indicate possible ranges and dispersions pose problems in describing events subject to uncertainty" (page 39) and "Single numbers supplemented by ranges and investments grouped by relative risk may be more complex, but they may also communicate more accurately the imprecision involved in making judgments" (p. 40). This point has generally been overlooked by commenters on the report. This was again an insertion by Sorter,[64] who had succeeded in placing a similar discussion in ASOBAT (1966, p. 29). In their "Relevant Accounting," Ronen and Sorter proposed the use of "probabilistic measures" to communicate the firm's expectations and exit values (1972, p. 264). On this point, Chairman Trueblood was "on board" with ranges of precision.[65] Davidson has said, "I do not recall anyone within the nine members of the committee as being conspicuously either for it or against it. We just sort of went along."[66] It will be recalled that something similar was proposed by Laventhol Krekstein Horwath & Horwath in the oral testimony taken at the public hearing.

Chapter 7 takes up the issue of whether companies should publish financial forecasts. Reed Parker played a role here in that managements' ability to fulfill their forecasts can provide useful information for users who can thus judge how well managements carry out their own predictive process.[67] The Study Group's recommendation was that "Financial forecasts should be provided [as part of the financial statements] when they will enhance the reliability of users' predictions" (page 46). Sorter explained that the primary reason for recommending that forecasts be included in the financial statements was that they "would allow users to discover biases in forecasting that firms had, whether they had consistent positive or negative biases, so that users could then interpret management forecasts in terms of their biases."[68] Forecasts, as well as juxtaposing them with realizations, were an integral part of Ronen and Sorter's "relevant accounting." Trueblood, Davidson and Weston were keen to ask managements to

[61] Interview with Sidney Davidson, July 27, 2001.
[62] Interview with Sidney Davidson, July 27, 2001.
[63] Illustrative financial statements, including the statement of financial activities, are displayed in Volume 2/Selected Papers (Cramer and Sorter, 1974, pp. 343–371).
[64] Interview with Sidney Davidson, July 27, 2001.
[65] Interview with George H. Sorter, March 26, 2001.
[66] Interview with Sidney Davidson, July 27, 2001.
[67] Interview with Martin S. Gans, February 18, 2002.
[68] Interview with George H. Sorter, August 13, 2014.

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publish forecasts. Davidson believed that the income statement should have multiple columns, with the management forecast together with what actually happened.[69] Edwards recalls that he also supported forecasts.[70] Gellein (1973, p. 33) wrote, "We did learn a great deal from the experience with forecasts in the United Kingdom, but we could not satisfactorily resolve questions concerning reliability of forecasts and their usefulness." The two financial executives on the Study Group were, as might be expected, not in support of the recommendation to report forecasts.[71]

There was a large concern over the risks of legal liability that company managements might take by publishing forecasts, and the Study Group enlisted Harvard University law school Professor David R. Herwitz as a consultant to the Study Group to write a paper on the subject. His paper, "The Risk of Liability for Forecasting," was published in Volume 2/Selected Papers (Cramer and Sorter, 1974, pp. 247–273). Herwitz also attended the Study Group's public hearing and posed several questions in the course of the testimony.

Chapters 8 and 9 were entitled "Objectives of Financial Statements for Governmental and Not-for-Profit Organizations" and "The Relationship of Enterprise Goals to Social Goals," respectively. Both were subjects of longtime interest to Trueblood.[72] Sorter recalls that he and Ronen believed from the beginning that it was necessary to address the difficulty of quantifying the costs and benefits of attempts at meeting social goals.[73] In Chapter 8, the Study Group concluded that, for governmental and not-for-profit organizations, like commercial organizations, "decision-makers are interested in predicting, comparing, and evaluating benefits and sacrifices in terms of amount, timing, and related uncertainty, even though they seek nonmonetary benefits" (page 50). In regard to relating enterprise goals to social goals, in Chapter 9 the Study Group blandly stated that "An objective of financial statements is to report on those activities of the enterprise affecting society which can be determined and described or measured and which are important to the role of the enterprise in its social environment" (page 56). In this respect, Reed Parker later wrote (1974, p. 140), "The Committee did go beyond what has been dubbed a 'what is good for General Motors is good for the country' concept." Yet the Study Group also endorsed a position that might have been inspired by the conservative economist Milton Friedman: "our social and economic system assumes that the pursuit of private goals generally tends to fulfill the social ones" (page 53). As in other places of the report, there was something here for everybody. The contents of these two chapters were not much discussed in the Study Group's deliberations. Joshua Ronen contributed a paper on the economic analysis of the social cost and benefits problem in Volume 2/Selected Papers (Cramer and Sorter, 1974, pp. 317–340), some of which found its way into Chapter 9.

The discussion of the "qualitative characteristics of reporting," a section similar to those that were included in ASOBAT (1966) and APB Statement 4 (1970), was relegated to Chapter 10 in the Study Group's report. This was Sorter's decision (and, as noted above, he would have preferred that the comparable section be excluded from ASOBAT), because he believed that these were the characteristics of all reporting, not just financial reporting, and therefore transcended the objectives of financial statements. He would have omitted the chapter entirely from the report.[74] One notes that, in the chapter heading, "reporting" is used instead of "financial reporting." The second sentence of the chapter says that these qualities "are presumed to be implicit in any intelligent reporting of information" (page 57). Yet Davidson wanted that section to be included, because, he said, "much of accounting is concerned with a race between relevance and objectivity, and I wanted to get relevance up there in front."[75] Trueblood also wanted the section in the report.[76]

[69] Interview with Sidney Davidson, July 27, 2001.
[70] Interviews with Martin S. Gans, February 18, 2002; with Sidney Davidson, July 27, 2001; and with James Don Edwards, March 12, 2001.
[71] Interview with Sidney Davidson, July 27, 2001.
[72] Interviews with Martin S. Gans, February 18, 2002; and with Sidney Davidson, July 27, 2001. Trueblood wrote, "A major concern of mine has long been the evaluation of the performance of governmental and not-for-profit organizations," and he emphasized the need to identify their social and non-monetary goals more explicitly (Trueblood on the Trueblood Report, 1973, p. 5).
[73] Interview with George H. Sorter, March 26, 2001.
[74] Interview with George H. Sorter, March 26, 2001.
[75] Interview with Sidney Davidson, July 27, 2001.
[76] Interview with George H. Sorter, August 13, 2014.

As the report was being developed, Sorter, Ronen, and numerous consultants to the Study Group were preparing a wide range of research papers for eventual publication in the 395-page Volume 2/ Selected Papers (Cramer and Sorter, 1974). Many or most of these papers would have been available to the Study Group members prior to the conclusion of their deliberations. The collection was organized under five headings: Background and Organization of the Study (five papers), The Conceptual Inquiry (seven papers), Valuation Methods (three conceptual papers and three empirical papers), the Risk of Liability for Forecasting (one paper, by David Herwitz), and Accounting for Social Factors (two papers). The volume closed with a comprehensive index to other writings. Sorter and Ronen authored or coauthored a dozen of these papers themselves.[77] In two of Ronen's papers, there were footnote references to "Relevant Accounting" (Ronen and Sorter, 1972). The three conceptual papers dealt with discounted cash flow accounting (by Ronen), exit value accounting (by James C. McKeown), and replacement cost accounting (by Lawrence Revsine). These authors also contributed empirical papers testing the feasibility of preparing financial statements by using these three approaches to valuation. These six papers provided insight for the discussion of these three value options to historical cost in Chapter 6. Opinions differ among the Study Group members on which, if any, of the papers slated for publication in Volume 2 were influential in the deliberations. More than the papers *per se*, the thinking in the papers written by Sorter and Ronen found their way into the report via the drafting.

What is disconcerting to the researcher is that no links, via textual citations or footnotes, were provided in the Study Group's report to show how normative arguments and empirical research findings contained in the many papers in Volume 2 – or in the rest of the literature – influenced the positions adopted in the report.

In the preface to the report, reference was made to Moonitz (1961), Sprouse and Moonitz (1962), ASOBAT (1966), the APB's Statement 4 (1970), and a monograph on objectives published in Australia by Kenley and Staubus (1972). But the Kenley–Staubus monograph was not published until the end of 1972, by which time, as will be seen below, the Trueblood Report was largely drafted. No more is said of these previous writings than, "Each of these past studies has provided useful views of a complex subject.... The extent to which conclusions reached in this Study are different from those reached in previous inquiries may be largely due to differences in approach and method" (page 9). No reference is made in the report to Ronen and Sorter's "Relevant Accounting" (1972) or to Sorter's "events theory" (1969), which had a much more profound influence on the content of the report than any of these cited works. One can understand the strategic reason why "Relevant Accounting" and Sorter's "events theory" article were not cited, as it would have allowed the inference – valid as it was – that the views of the full-time staff may have weighed more heavily in the drafting than the views of the nine Study Group members.

10. Completing the report

The Study Group concluded its deliberations on substantive issues in the draft report by the latter part of 1972, and the remaining work was mostly the crafting, polishing and editing of the sections so as to produce an integrated and readable package. Sorter recalls that the report was really done by the spring of 1973.[78]

James Don Edwards recalls that Andrew Reinhart and Howard Wagner, the two financial executives, said at one point that they might want to issue a minority report because, apparently, they disagreed with so much of the draft report.[79] George Sorter, in an interview, contests this recollection and believes that they had no intention to dissent.[80] No such minority report was even drafted. Compromise, of course, was the essence of producing a report without dissenting views. As Reed Parker saw it, he and Sidney Davidson typically voiced extreme views in opposite directions. He said that, "what came out was, I think, sometimes nicknamed the Davidson-Parker compromise."[81] Parker characterized Davidson

[77] Nine of these 12 papers were reprinted in Ronen and Sorter (1978).
[78] Interview with George H. Sorter, March 26, 2001.
[79] Interview with James Don Edwards, March 12, 2001.
[80] Interview with George H. Sorter, August 13, 2014.
[81] Interview with C. Reed Parker, March 29, 2001.

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as thinking that current cost was truth, while, to Parker, historical cost was truth. Parker didn't mind reporting current cost so long as it was relegated to the footnotes.[82]

Near-final drafts of the report were sent confidentially to John C. (Sandy) Burton, the SEC chief accountant, and to a few others, mainly to see if the Study Group had a "saleable product." Burton was very receptive.[83] Whatever suggestions that were received from these few commenters did not alter the final content.[84]

By raising their hands at the last meeting, which was their only vote during more than two years of meetings, the Study Group members unanimously approved the final draft. This is not to say that every one of the nine members agreed with every paragraph, let alone every word. Everyone compromised to some degree, as the members affirmed in their letter of transmittal to the AICPA president (page 5), obviously inspired by Trueblood's leadership. Yet the many accommodations of divergent views which were required to achieve a unanimous report may have been what led Trueblood to confide that his work in chairing the Study Group was the most frustrating experience of his career.[85]

Four months before the report was issued, Sidney Davidson summarized its purport in a speech: "The essence of the Report is a recognition that financial accounting must include, in supplemental data if not in the body of the formal statements, as much current and forward looking data as are available" (1973, p. 9).

Sometime during 1972, Robert Trueblood was diagnosed with leukemia, which led to his missing some meetings for treatment. Oscar Gellein stood in for him as acting chairman on these occasions. But Trueblood continued to lead the Study Group and make his intellectual contributions, and he put pressure on the members and staff to complete the task. The disease became virulent by August 1973, when he had to enter Northwestern Memorial Hospital, on Chicago's near north side. Sorter and Gans went to see him daily, and they talked over a lot of issues. In October 1973, Sorter brought the finished report to Trueblood in the hospital, where he signed it. He died on February 7, 1974 at age 57 (Bryson, 1976, p. 251).

Of Trueblood, Joshua Ronen has said, "Without him it couldn't have happened. You could hardly have thought of anybody who would have had the credibility in the profession, the intellect, and the patience."[86]

The Trueblood Report, as it came to be known, was completed three months after the FASB succeeded the APB as the standard setter on July 1, 1973, and the FASB received the report just as it was contemplating the development of its conceptual framework. Ironically, Marshall Armstrong, the AICPA president who had announced the Study Group on objectives in March 1971, in November 1972 had become the chairman of the FASB, which, it was understood, would act on the report. Two Study Group members, Sidney Davidson and Reed Parker, were approached to be on the initial FASB, but declined. In 1972, both Davidson and Parker were tapped to be members, for two years and three years respectively, of the FASB's advisory council. Study Group member Oscar Gellein served on the FASB from 1975 to 1978, when the board was debating its concepts statement 1 on objectives (see Zeff, 2013, pp. 24–28). George Staubus, the pioneering advocate of decision usefulness coupled with a cash flow orientation, was the FASB's director of research and from 1976 to 1978.

In its transmittal letter to AICPA President LeRoy Layton, the Study Group conveyed the view that "its report is not of the kind to be accepted or rejected by the members, the Council, or the Board of Directors of the Institute. Rather, the report should be regarded as a carefully considered contribution to the profession's literature which must stand or fall on its own merit" (page 4). It suggested that the Institute and other affected organizations should develop an "active discussion program or seminar schedule" to engage interested parties in a debate about the objectives, but this was not done. The Institute, for its part, relied entirely on the newly established FASB to carry the project forward. Yet two universities, stimulated by George Sorter, held conferences to discuss the report.

[82] Telephone conversation with C. Reed Parker, June 12, 2014. For Davidson's view that "resource value changes" will produce "truth and light," see his lecture (1973, p. 8).

[83] Interviews with James Don Edwards, March 12, 2001; and with Martin S. Gans, February 18, 2002.

[84] Interview with George H. Sorter, March 26, 2001.

[85] As related in a communication from J.T. Ball to the author, dated July 12, 2014.

[86] Interview with Joshua Ronen, March 26, 2001.

At the University of Chicago, the Institute of Professional Accounting, which Sorter directed, held a Robert M. Trueblood Memorial Conference on May 9–10, 1974, which was financed by the Touche Ross Foundation and was devoted entirely to the recommendations in the Study Group's report. The conference proceedings were published under the title, Studies in Financial Accounting Objectives: 1974. Then, in September 1974 Sorter resigned his appointment at Chicago and joined the business school faculty at New York University (NYU). In March and April 1977, NYU's Ross Institute held two roundtables to discuss the FASB's "Tentative Conclusions on the Objectives of Financial Statements of Business Enterprises," the proceedings from which were published in a pamphlet (The FASB's Tentative Conclusions..., 1977).

11. Critiques and the FASB's deliberations on the Trueblood Report

A number of accounting academics, and others, wrote critical pieces on the Trueblood Report. As Zeff (2013, pp. 284–287) has already discussed the more salient of the written reactions to the report as well as the course taken by the FASB to use the report in fashioning its concepts statement 1 on objectives – which incorporated an enterprise's cash-generating ability in its decision-usefulness approach – it does not seem desirable here to rehearse these discussions. It suffices to say that the Trueblood Report's Objectives 3 and 4, which referred to enabling investors to predict future cash flows, became a model, directly or indirectly, for every major standard setter that subsequently developed a conceptual framework.

12. The data-gathering process for the research

Even though the interviews, all of which but one (with Edwards) were tape-recorded, yielded many recollections and insights useful to understanding the dynamic of the Study Group's deliberative process, it was unfortunate that a broader array of the Study Group members could not have been interviewed. Yet, by the time the research for this paper began in early 2001, Study Group members Trueblood, Reinhart, Cyert, Weston, and Gellein had died.[87] Wagner had moved to Florida, and he died in May 2005. His obituary allows the inference that he was afflicted by Parkinson's disease in his final years.[88] Of the full-time staff, all were living except for Michael Shannon, who died in 1992.

When conducting interviews, the author tests the reliability of the interviewees' recollections by comparing those that can be documented by other sources, with those sources.

It was also unfortunate not to be able to draw on the large trove of internal papers (notes and transcripts from meetings with interested parties, successive drafts of sections of the report, correspondence among the members and staff, and other documentation), but these have not survived. Paul Rosenfield has advised the author that he knows nothing about any of the Study Group's files at the AICPA.[89] The author asked the AICPA Library, at the University of Mississippi, whether it possesses any such files, and the reply was in the negative. It is possible that the internal papers were housed in the Chicago branch of the executive office of Touche Ross (where Trueblood and Gans were based), but Gans advises that, in 1974, following Trueblood's death, the Chicago branch of the firm's executive office, which Trueblood headed, was essentially transferred to New York City.[90] In 1989, Touche Ross merged in the United States with Deloitte Haskins & Sells to form Deloitte & Touche, and the author's communications with the latter firm about the Study Group's files were unavailing. It had been Trueblood's vision that all of the Study Group's internal papers would be preserved in the Institute's archive,[91] but such was not to be.

[87] In fact, Oscar Gellein died on March 7, 2001, just before the author was able to interview him. Sidney Davidson died on September 15, 2007, six years after the interview.

[88] See "Howard O. Wagner," obituary, *The Chicago Tribune*, May 22, 2005, at: http://articles.chicagotribune.com/2005-05-22/news/0505220145_1_mr-wagner-emily-wagner-financial-accounting-standards-board.

[89] Communication from Paul Rosenfield to the author, dated February 4, 2007.

[90] Communication from Martin S. Gans to the author, dated May 30, 2014.

[91] Interview with George H. Sorter, August 13, 2014.

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13. Conclusion

The Trueblood Report, whose Objectives 3 and 4 had a considerable impact on the formulation of conceptual frameworks by the FASB and by standard setters elsewhere, marked an advance on ASOBAT (1966) and the APB's Statement 4 (1970) by applying decision usefulness to enabling investors and creditors to predict the enterprise's cash-generating ability and eventually the cash flows to them. George Sorter and Joshua Ronen, who themselves had decided that this was the right way to go, were staunchly supported on the Study Group by financial analyst Reed Parker – he seemed to be alone among Study Group members at first – who argued eloquently, and in the end convincingly, for the centrality of enabling the investor to estimate future cash flows in any statement of the objectives of financial statements. This cash flow orientation turned out to be the distinctive theme of the report, and this insight about the pivotal role of the financial analyst in the Study Group, together with the influence throughout of George Sorter and his research staff on the drafting of the report, is the principal contribution of this paper to the literature.

One must issue the caveat that this contribution is heavily influenced by the interviews conducted in this research. On the one hand, interviews can be a source of insight into the factors influencing certain outcomes, but on the other they are inevitably subjective and can be biased by the interviewees' motives to support their positions. In conducting the interviews, the author has endeavored to attend to this possible bias and to minimize its influence.

Interviews

Sidney Davidson, July 27, 2001
James Don Edwards, March 12, 2001
Martin S. Gans, February 18, 2002
C. Reed Parker, March 29, 2001
Joshua Ronen, March 26, 2001
Paul Rosenfield, September 13, 2003
George H. Sorter, March 26, 2001 and August 13, 2014

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