

Articles

The Conflict of Accounting View and Modern Foundation of Financial Accounting : Auditing firm's point of view on "FASB Discussion Memorandum 1976"

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Abstract

The aim of this paper is to provide an overview of the US FASB [1976] *An Analysis of Issues related to Conceptual Framework for Accounting and Reporting: Elements of Financial Statements and Their Measurement*, FASB Discussion Memorandum, FASB, December 1976 announced on December 2, 1976 (Hereinafter referred to as the "FASB Discussion Memorandum 1976"), especially while checking the position and viewpoint of the Auditing firms in the United States in detail, examined the confrontation of the accounting view at that time in detail, I will examine what kind of influence it has on the characteristics of accounting and also explore the problems that arise from it. Based on the above, I quote Ichikawa [2010] and Ichikawa [2017] as necessary.

[Key words] Asset and liability View, Revenue and Expense View, Auditing firm, "FASB Discussion Memorandum 1976"

1. Introduction

The aim of this paper is to provide an overview of "FASB Discussion

Memorandum 1976”, especially while checking the position and viewpoint of the Auditing firms (mainly, Ernst & Ernst and Arthur Andersen & Co) in the United States in detail, examined the confrontation of the accounting view at that time in detail, I will examine what kind of influence it has on the characteristics of accounting and also explore the problems that arise from it. Based on the above, I mainly quote Ichikawa [2010] and Ichikawa [2017] as necessary.

After discussing from the conclusion, the conflict between Ernst & Ernst and Arthur Andersen & Co’s account view was clarified, and the influence of the former was enormous.

In a nutshell, Ernst & Ernst recommended Revenue and Expense View, and Arthur Andersen & Co recommended Asset and Liability View. In other words, there are many companies who recommend Revenue and Expense View (directing the idea of Ernst & Ernst), and Arthur Andersen & Co, which recommended Asset and Liability View, was clearly a minority.

However, unlike at the time, it is no exaggeration to say that Asset and Liability View is mainstream. Over time, Arthur Andersen & Co’s idea of Asset and Liability View is accepted. Currently, however, Arthur Andersen & Co has been forced to dissolve with the Enron incident.

How to interpret the implications of accounting views (Asset and Liability View, Revenue and Expense View) is an old new matter directly linked to the importance of how to capture the basic measurement process of accounting and the definition of profit. In view of the fact that IFRS is arbitrarily applied and still there are companies still adopting US standards, it is highly valuable to follow the changes in the FASB’s Asset and Liability View and explore the cause.

2. About the Audit firm

Ernst & Young (formerly Ernst & Ernst), Deloitte Touche Tohmatsu, KPMG, Pricewaterhouse Coopers are the four largest audit corporations

(Big 4) in so-called Europe and the United States. In the past, Arthur Andersen & Co was also included as a five large audit firm, but as described below, it was dissolved as being involved in Enron's fraud accounting.

According to Hatta [2004], since the 2000s, even in the United States, the situation that the reliability of the audit is severely raised is said to occur frequently. Among them, in the case of the United States, as a result of the bankruptcy of Enron company in December 2001 (the purpose of this paper is as described above, it does not mention the details of the case, but he was auditing Enron company at the time Is Arthur Andersen & Co and is considered to be involved in fraudulent accounting), various problems related to accounting and auditing, corporate governance, which refers to the sound system of the company, have been raised and a series of "accounting distrust" or To eradicate "corporate distrust", on July 30, 2002, it is said that the "Public Company Accounting Reform and Investor Protection Act of 2002" will be established at an unusual speed (Hatta [2004]pp.27-28).

In addition, according to Hatta [2004], even with regard to audit problems only, the auditor could not find the accounting process more than it caused the Enron company's bankruptcy, such as the responsibility problem of the responsible audit corporation. In addition to managing the quality of the auditor's qualification, focusing on the conventional auditing method and independence, the quality of the work of the audit office, and reviewing the contents of the auditing standards and the setting itself. It is pointed out that reform will be carried out and it is forced to reconsider the fundamental framework of the audit from the ground up (Hatta [2004] p. 28).

As I mentioned above, from the conclusion it is clear that the conflict between Ernst & Ernst and Arthur Andersen & Co's accounts in "FASB Discussion Memorandum 1976" in this paper was clarified, and the influence of the former was enormous.

In a nutshell, Ernst & Ernst recommended Revenue and Expense View, and Arthur Andersen & Co recommended Asset and Liability View. In other words, there are many companies who recommend Revenue and Expense

View (directing the idea of Ernst & Ernst), and Arthur Andersen & Co, which recommended Asset and Liability View, was clearly a minority.

However, unlike at the time, it is no exaggeration to say that Asset and Liability View is mainstream. Over time, Arthur Andersen & Co's idea of Asset and Liability View is accepted. Again, currently, however, Arthur Andersen & Co has been forced to dissolve with the Enron incident.

3. Auditing firm's point of view on "FASB Discussion Memorandum 1976"

This chapter will proceed especially while pulling Ichikawa [2010].

It is said that it was "FASB Discussion Memorandum 1976", which became a substantial trigger for the conversion from the Revenue and Expense View to the Asset and Liability View.

"FASB Discussion Memorandum 1976" were prepared as a basis for respondents to express their opinions prior to the hearing in writing, and due to their nature, they were asked for opinions from various companies, many accounting specialists or financial institutions I am doing. "FASB Discussion Memorandum 1976" are reviewing the definitions conforming to Revenue and Expense View, Asset and Liability View for these respondents, and the opinions of respondents, that is, the letter of opinion letter (hereinafter referred to as "Letter of Comment" FASB [1977] Position papers submitted in respect of "FASB Discussion Memorandum 1976", Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement, dated December 2, 1976, PART 1, FASB Public Record, FASB, 1977 (hereinafter referred to as Public Record). Respondents indicate to the FASB a definition that meets their own ideas.

Also, before the "FASB Discussion Memorandum 1976" form the substantial starting point of the conceptual framework project, the publicly approved conceptual framework of financial accounting has not been substantively specified, so Public It can be said that the Letter of Comment seen in

the Record had a great influence on the process of forming the conceptual framework of financial accounting since the publication of "FASB Discussion Memorandum 1976". In addition, at the FASB which released "FASB Discussion Memorandum 1976", in addition to the answer on the contents raised by "FASB Discussion Memorandum 1976", proposing new definitions and clarifying the basis were discussed in 1976 People who read materials, that is, respondents had been asked.

Regarding the disclosure of these "FASB Discussion Memorandum 1976", the FASB stated that Before reaching the final conclusion, devised further investigations and measurement changes worthy of conducting experiments, in response to discussion materials in 1976, We are predicting that we will be able to find out from Future Board (FASB [1976] preface) and show strong expectations for Letter of Comment from various fields on "FASB Discussion Memorandum 1976", You know that.

In "FASB Discussion Memorandum 1976", the FASB raised the above-mentioned problems, and in fact the FASB is seeking opinions on the discussion materials in 1976 in various places, and in addition to US companies not known in Japan, banks, auditing corporations office, AAA and so on, and they respond to the request in the form of Letter of Comment in Public Record.

The answer form varied depending on the company and the like, but various opinions were expressed from handwritten ones, word processor created, extremely short comments to very long comments. Due to the nature of the Letter of Comment, it is possible to deduce how much attention the company has with regard to "FASB Discussion Memorandum 1976" (that is, to calculate profits) and what attitude regarding profit calculation. Whether the idea of corporate profit, that is, whether to select Revenue and Expense View, whether to select Asset and Liability View, whether to select non-cooperation view, or to present another profit view For enterprises, it seems that there was a sort of footprint-like meaning as to what kind of attitude they showed about profit.

Anyway, since the amount of Letter of Comment of Public Record has reached a huge number, it is true that the interests of various fields on "FASB Discussion Memorandum 1976" were strong. Based on these Letter of Comment, what kind of views of many companies and banks did you view, and what kind of center view did you choose? And how did it affect the subsequent accounting principle setting? In this chapter, we will explore the views of respondents and responding companies.

And, once we had anticipated the conclusion, the companies that adopted Revenue and Expense View for the majority. Letter of Comment of the total 294, there are 189 companies and companies that adopt Revenue and Expense View. On the other hand, there were only 13 companies that adopted the Asset and Liability View. There were also companies that seemed to adopt the view of non-cooperation, but it was less than 10 companies. In the "FASB Discussion Memorandum 1976", even the attitude that the color of Asset and Liability View and the market price principle is very strongly induced has been heard, but in fact if you open the lid of the 2,500 Public Records, "FASB Discussion Memorandum 1976", most of them were Letter of Comment of companies and others who cried out adopting Revenue and Expense View, contrary to the posture of "FASB Discussion Memorandum 1976"(Ichikawa [2010] pp.83-87).

This paper mainly focused on the audit firm. Therefore, let's examine the way of thinking of the audit corporation then at the time assuming the above. For an overview of the above 2,500 Letter of Comment, please refer to Ichikawa [2010] (pp.87-126).

3.1 Revenue and Expense View

Ernst & Ernst is the representative of an audit firm supporting Revenue and Expense View, but other audit corporations have also expressed support.

Price Waterhouse & Co states the answer on "FASB Discussion Memorandum 1976" as follows (Price Waterhouse & Co [1977] p. 591). The ques-

tion presented by the " FASB Discussion Memorandum 1976 ", that is, which of the center views should be adopted, Price Waterhouse & Co says, "As the basis of the conceptual framework for financial accounting and financial reporting, We should adopt Revenue and Expense View " (Price Waterhouse & Co [1977] p. 591) and expresses opinions clearly adopting Revenue and Expense View.

For the question of what is constituting the content of the asset definition for the conceptual framework on financial questions and financial accounting and financial reporting presented by " FASB Discussion Memorandum 1976 ", Price Waterhouse & Co " It is a financial representation of economic resources as a result of past transactions or events affecting a particular company and at the same time deferred costs will definitely occur and there is no reasonable measure of period profit It may indicate unallocated items of resources and responsibilities rather than economic resources "(Price Waterhouse & Co [1977] p. 592). Basically, Asset and Liability View on " FASB Discussion Memorandum 1976 " does not take the standpoint of welcoming deferred items and deferred income and reserves, and these items are scheduled to be amortized or to be transferred in the future period profit measurement. Although it was not, since Revenue and Expense View was planned to be carried forward, it can be said that it is in line with Revenue and Expense View as far as the viewpoint of Price Waterhouse & Co is concerned.

In addition, though various opinions were mentioned, the answer / view of Price Waterhouse & Co is almost synonymous with the concept presented when " FASB Discussion Memorandum 1976 " adopted Revenue and Expense View (Ichikawa[2010]pp.133-135).

Ernst & Ernst is based on I. (1. SUMMARY, 2. Background), II. Analysis of The Discussion Memorandum (3. Elements of Financial Statements, 4. Measurement of Financial Statement Elements, 5. Probable Alternatives), III. Ernst & Ernst Position Papers (6. Our Views on the Conceptual Framework, 7 Accounting under Inflationary Conditions), IV. Excerpts from

Conceptual Framework Package (8. Illustrative Income Statement Presentations, 9. Issues Posed by The FASB, 10. Matrices for Indicating Responses, 11. Tentative Conclusions on Financial Statement Objectives), which consists of four parts, and has submitted a total of 11 chapters of Letter of Comment to the FASB.

Among these, the strongest representation of Ernst & Ernst's opinion is probably the selection of the measurement attribute indicated in "Our Views on The Conceptual Framework" in "Ernst & Ernst Position Papers" in Part III. Here, the content which is completely different from the selection problem of measurement attribute indicated in "FASB Discussion Memorandum 1976" is shown. Basically, the view of Ernst & Ernst is almost synonymous with what the Price Waterhouse & Co replied to the responses that the "FASB Discussion Memorandum 1976 raised" (Ernst & Ernst [1977] pp. 1281-1402), it can be said that Ernst & Ernst is conducting detailed studies on the problem of measured attributes, against the fact that Price Waterhouse & Co did not respond to the measurement attribute problem.

Ernst & Ernst at the beginning of the Letter of Comment, "The outcome of the FASB Concept Framework Project will decide the path of accounting and financial report for a long time" (Ernst & Ernst [1977] p.1282). While administering the systematic power to the FASB, that is, the authority as the organization setting criteria, continuing, "unfortunately, the committee abstract and theoretical, the publication of the conceptual framework with subjects was disappointing and problematic for reading. In order to help the FASB in understanding the problem, Ernst & Ernst said that I analyzed this project "(Ernst & Ernst (1977) p.1282). criticism of "FASB Discussion Memorandum 1976" is spelled out. Such a wording became the basis for Ernst & Ernst to acknowledge the FASB as "powerful" institution (which will have power), so it can be said that it took a lot of effort to consolidate huge opinions.

Ernst & Ernst says, "Most of the definition of the elements of the finan-

cial statements discussed in the discussion materials contradicts either Asset and Liability View or Revenue and Expense View. The proponents of non-cooperation viewers should explain what is the optimal definition to meet their profit views (Ernst & Ernst [1977] p.1374). It shows a negative view on the cooperation view. Continued with Ernst & Ernst are those referred to as a " FASB Discussion Memorandum 1976" is the center view of the problem shown are those that associate most other issues, the respondents discussed among the answer to the problem, all the things of the aspects (Ernst & Ernst [1977] p.1374) , indicating that we should respond carefully. Ernst & these prudence in Ernst is, by the center view selection, other problems " FASB Discussion Memorandum 1976" was shown , that is, the definition of assets, definition of a liability, the definition of income and expense, gain, We assumed that the definition of losses, the definition of profits and their breakdown factors, the positioning of gains, losses in relation to revenue, expenses, problems of capital maintenance, cost recovery, and measurement attributes were determined.

The most different point between Ernst & Ernst and " FASB Discussion Memorandum 1976" is selection problem of measurement attribute. Let's examine this point. In " FASB Discussion Memorandum 1976", it was suggested that separation of definition and recognition criterion is necessary for recognition problems of assets and liabilities. As "FASB Discussion Memorandum 1976" has a wide variety of recognition criteria due to various kinds of items and different environmental factors, it is difficult to include recognition criteria in the definition of the component to be complex and unstable It begins from the fact that I am concerned about it.

There are two reasons for that concern, the first being "It is far impossible to consider all important rules and practices for the recognition of all the components at the same time" (FASB [1976] para.14), and the second is "every time recognition rules or recognition practices change, and as the management practice with new recognition problems emerges, the definition will change From "Deaf" (FASB [1976] para.14). For these reasons,

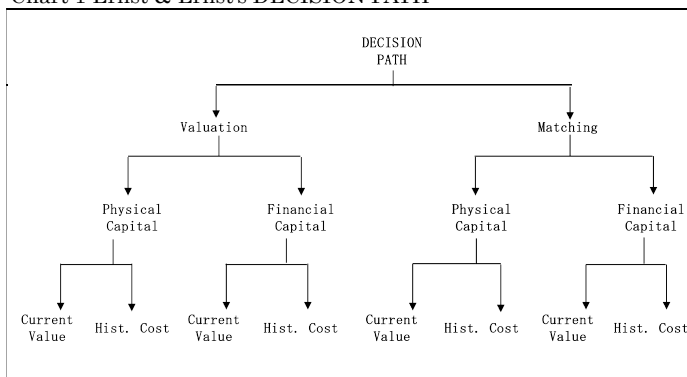
“FASB Discussion Memorandum 1976” had an active position in separating definition and recognition criteria. In addition, in the “FASB Discussion Memorandum 1976”, the selection of profit views and the problem of measurement attributes were separated from the measurement problem of assets and liabilities, and the measurement attribute was considered as a selection problem (FASB [1976] para. 47). That is, there is no automatic linkage linking each center view with a specific metric, and any centers will be compatible with the measurement of several different attributes of the components of the financial statements. Revenue and Expense View was not limited to the correspondence between revenue and historical cost of expenditure, but it was said that it is now possible to make replacement cost correspond to sales revenue.

In contrast, Ernst & Ernst insists on criticism of separation of definitions and measurements (Ernst & Ernst [1977] p.1285). Ernst & Ernst stated that. “FASB Discussion Memorandum 1976” separates the definition of the fundamental component from its measurement. We say that defining the fundamental components without paying attention to the measurement is apt to lead to misunderstanding I do not think that it is meaningless. Thus Ernst & Ernst states that it is useless to clearly separate the accounting view (profit perspective), definition and measurement attributes. Ernst & Ernst further stated that "Basic accounting is whether the accounting should mainly retain acquisition cost criteria (historical cost basis) or whether accounting should be shifted to certain measurement methods of market value "(Ernst & Ernst [1977] p.1290). In our view, the first step in this definition is decisive, if the measurement of liabilities is the main focus of accounting, we believe that the result will move away from reporting expenses and revenues based on completed transactions. If this is a reality, Measuring the assets and liabilities at that market price may be a preliminary conclusion in that case (Ernst & Ernst [1977] p.1374), the idea of focusing on assets and liabilities, that is, Present a critical view on the idea of Asset and Liability View That.

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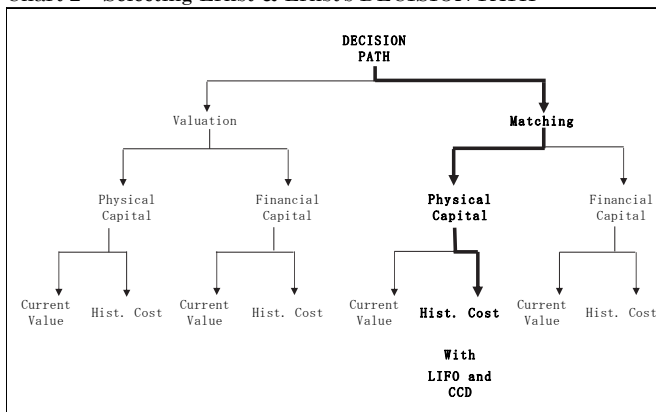
Anyway, Ernst & Ernst clearly considers the pyramid type selection level method starting from the determination of the accounting view. And, in the form of summarizing the selection problem of such a selection attribute, Ernst & Ernst presents the problem of measurement attribute as one chart in the Letter of Comment. That is Chart 1.

Chart 1 Ernst & Ernst's DECISION PATH



Source : Ernst & Ernst [1977] p.1328

Chart 2 Selecting Ernst & Ernst's DECISION PATH



Source : Ernst&Ernst[1977]p.1329

Here we start with the selection of Valuation and Matching, then select Physical Capital and Financial Capital, Finally choose Current Value and Hist. Cost, which are divided into three stages. The choice of Valuation (evaluation) and Matching (correspondence) which Ernst & Ernst thinks has become the selection of the accounting view, and the choice of Physical Capital (financial capital) and Financial Capital (financial capital) And the choice of the last Current Value (market value) and Hist. Cost (acquisition cost) will be the choice of measurement attribute. On the premise of selecting such measurement attributes, Ernst & Ernst shows the view as shown in Chart 2.

Accounting professional organizations that recommend Revenue and Expense View are examining in detail the concept of correspondence between income and expenses, with Ernst & Ernst as the lead. Common matters here are emphasis on the idea of the concept of correspondence between revenue and cost is the root of accurate transactions, the notion of revenue and expenses is given priority over the concept of assets and liabilities, the difference between revenue and expenses is profit . Just as Ernst & Ernst, the opinion that developed the discussion up to the measurement attributes was not found in the audit corporation or the accounting firm which recommends to adopt other Revenue and Expense View. Rather, it has an influence on general corporations. This point will be described later. I think that Ernst & Ernst's Letter of Comment is noteworthy in that it takes a position to thoroughly deny the separability of definitions and measurements and clearly shows the view that it can not be separated, should not be separated (Ichikawa [2010] pp. 135 - 143).

3.2 Asset and Liability View

As mentioned above, among the total number of Letter of Comment 294, only 13 were recommended for the viewpoint of asset liability.

In response to the question of “FASB Discussion Memorandum 1976”, Arthur Andersen & Co gives the following as the logical foundation underlying asset liability centralism (Arthur Andersen & Co [1977] p. 621) .

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Chart 3 Arthur Andersen & Co's type of asset and metric

Types of assets	Metric
Receivables (Short-Term and Long-Term)	present value
Investments in Marketable Securities (Short-Term and Long-Term)	fair market value * In the case of debt securities, it is the same as the present value based on the current market interest rate applied to the specified securities
Inventories	Basically, whichever is lower, current cost and net realizable value
Property, Plant and Equipment	Basically, fair market value
Intangible	-

Source : Ichikawa[2010]p.165

- Accounting is the current situation, what should be rationalized in practical things.
- The reality of a commercial enterprise must be its assets and liabilities.
- Revenues and expenses are merely customary methods of describing or explaining the outcome of changes in assets and liabilities and in the end are part of the analysis of changes in ownership interests
- The focus of accounting should be on assets and liabilities, not on revenue and expense.

Arthur Andersen & Co adopted the viewpoint of measuring the fair value of the asset and in what kind of asset what kind of market price measurement is appropriate in the form of a response the " FASB Discussion Memorandum 1976", Measurement Concepts specifically proposed in the proposal. The types of assets listed by Arthur Andersen & Co are as follows (the asset classes indicated in the attributes of the major asset classes shown in Chapter 9 of the " FASB Discussion Memorandum 1976").

And Arthur Andersen & Co thinks of the following combination as the measurement standard of such asset .

"Sales receivables (short-term / long-term)" is said to be presented as a

present value determined by discounting the amount prescribed to be collected at a reasonable current market rate, "marketable securities Investment (short term / long term)" is basically expressed as fair market value.

"Inventory" basically has an exception, even though it is the lower of current cost and net realizable value. It should be displayed at the lower of the present value or the current cost if the inventory can not be expected to be sold in a certain period and the present value is much lower than the net realizable value .

"Tangible fixed assets" are basically expressed in fair market value, but there are exceptions. If it is difficult to determine the fair market value, it is assumed that attributes considered to be approximate fair market values should be used, and if "present value < current cost", or under some other market , The present value is an approximate value of fair market value .

"Intangible assets" are defined as assets lacking the feature of exchangeability, which states that they should not be reported as assets .

This is the main content of Arthur Andersen & Co in general. Companies that support asset liability centers such as Naval Postgraduate School, which answers Matrix's answers on measurement attributes, are simply filled in with A, B, C, and as with Arthur Andersen & Co, It is not left with detailed wording.

In addition to this, Arthur Andersen & Co also has an interesting view on non-cooperation. With regard to non-cooperative view, it shows a negative view that financial statements should be coordinated. And if financial statements are not coordinated, it will be "lack of reliability" of financial reporting, and financial reporting will be criticized.

Anyway, Arthur Andersen & Co's answers and views may be considered to follow the concepts that the measurement attribute " FASB Discussion Memorandum 1976" basically adopted when adopting Asset and Liability View. As stated above, we clearly state that Asset and Liability View should be adopted, and even if we look at the definitions of revenue and expenses, it describes the result of the change in assets liabilities and liabilities And

it clearly states that it is part of the change in ownership interest. It can be said that confirming that accounting focuses on assets and liabilities is also Asset and Liability View insight (Ichikawa [2010] pp. 156 -166).

4. Conclusions

The aim of this paper was to provide an overview of the "FASB Discussion Memorandum 1976" , especially while checking the position and viewpoint of the Auditing Firm(mainly, Ernst&Ernst and Arthur Andersen&Co) in the United States in detail, examined the confrontation of the accounting view at that time in detail, I will examine what kind of influence it has on the characteristics of accounting and also explore the problems that arise from it.

As a result of examination, the conflict between Ernst & Ernst and Arthur Andersen & Co's account view was clarified, and the influence of the former was enormous.In a nutshell, Ernst & Ernst recommended Revenue and Expense View, and Arthur Andersen & Co recommended Asset and Liability View. In other words, there are many companies who recommend Revenue and Expense View (directing the idea of Ernst & Ernst), and Arthur Andersen & Co, which recommended Asset and Liability View, was clearly a minority.However, unlike at the time, it is no exaggeration to say that Asset and Liability View is mainstream. Over time, Arthur Andersen & Co's idea of Asset and Liability View is accepted. Currently, however, Arthur Andersen & Co has been forced to dissolve with the Enron incident.

How to interpret the implications of accounting is directly linked to the importance of how to grasp the basic measurement process and profit definition of accounting. This paper argues the differences between the concept of the audit corporation in the past (1970s) and the current measurement process.

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<Public Record>

※The Public Record which I posted this time is mainly limited to those related to this articles. For an overview of the above 2,500 Letter of Comment, please refer to Ichikawa [2010] (pp.87-126).

1 Revenue and Expense View(Auditing firm(including Accounting Office,etc))

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