Accounting through the looking glass: a reflection of twentieth century accounting crises: the mad hatter's tea party and the measurement debate

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ACCOUNTING THROUGH THE LOOKING GLASS: A REFLECTION OF TWENTIETH CENTURY ACCOUNTING CRISES - THE MAD HATTER'S TEA PARTY AND THE MEASUREMENT DEBATE.

A thesis submitted in fulfillment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

From

UNIVERSITY OF WOLLONGONG

By

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January 2000
I, Annamaria Kurtovic, certify that this thesis has not been submitted previously as part of the requirements of another degree and that it is the product of my own independent research.

Signed:

Annamaria Kurtovic
DEDICATION

To my mum, Rozika, and dad, Vlado, whose endless love, support and encouragement helped me through the most difficult yet fulfilling years of my life, allowing me to realise my dream at an early stage in my life.

To my sister, Ivka, and my two wonderful nephews, Karlo and Peter, for their love and understanding during the numerous times that I should have been there but wasn't.
ACKNOWLEDGMENTS

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IN MEMORY

In memory of Professor Ray Chambers, whose willingness to assist me in my endeavour I will always be grateful for, and his words of encouragement, I will always remember. I feel honoured to have been able to work with Professor Chambers, even if it was for only a short period of time.
ABSTRACT

The inability of accounting authorities to move away from historical cost and find an alternate method of asset measurement has cast doubts on the relevance and reliability of accounting information. For the greater part of this century, the accounting profession has been faced with the problematic issue of asset measurement, an issue, which still today, remains unresolved. As a result of the profession's apparent inability to solve such complex issues, the accounting profession has been accused of "doing nothing" preferring to recycle important financial accounting issues.

The responsibility of solving the measurement debate was entrusted to the Australian Accounting Research Foundation (AARF), an arm of the professional bodies, which was to protect the public interest. However, well over three decades after its formation, the AARF has failed to find an adequate alternative to historical cost, leaving present day accounting activities in a state of disarray.

It will be argued in this study that the formation of the AARF was nothing more than a self-serving smokescreen, used in a desperate attempt to combat unwanted criticism. Preoccupied by protecting their status quo, archival research will show that the AARF had all too often made decisions that sacrificed the public interest for their own economic self-interest. Using the translation process of power and other sociological issues, for example discourse and hegemony, this study will attempt to substantiate the above claims of doing nothing. In addition, the study will provide possible reasons as to why the accounting profession continues to recycle important accounting issues, and how it is that the profession is permitted to do so.
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CHAPTER 1

INTRODUCTION

ever since that, the Hatter went on in a mournful tone, he wo'n't do a thing I ask! It's always six o'clock now. A bright idea came into Alice's head. Is that the reason so many tea-things are put out here? She asked. Yes, that's it, said the Hatter with a sigh: it's always tea-time, and we've no time to wash the things between whiles. Then you keep moving round, I suppose? Said Alice. Exactly so, said the Hatter: as things get used up. But what happens when you come to the beginning again? Alice ventured to ask. Suppose we change the subject, the March Hare interrupted, yawning (Carroll Lewis 1982 64).

Throughout the later half of this century, strong criticism has been voiced, claiming that the accounting profession is guilty of "doing nothing" (Lee 1990, i), rather than protecting the public interest, the basis upon which many accounting professional associations were formed (Thomas 1985). Important accounting issues have been recycled leaving many problematic yet vital issues unresolved. Focusing on the issue of measurement in Australia, the aim of this study is not only to substantiate these claims but also to try and understand the reasons behind such behaviour. This has led to the following research question being asked in this study.

(i) Why is it that the accounting profession continually recycles important accounting issues? And

(ii) How is it that the accounting profession is permitted to recycle important accounting information?
To adequately answer these research questions, the study will focus on the asset measurement debate in Australia, closely examining the activities of the Australian Accounting Research Foundation.

**STATEMENT OF PURPOSE**

The overall purpose of this study is to substantiate claims that the accounting profession is guilty of recycling important accounting issues. In the process of demonstrating the penchant for recycling accounting issues possible reasons will be explored as to why important issues are continually recycled and how it is that the accounting profession is permitted to do so. It will also be argued that such behaviour is in contradiction to the profession's claims of protecting the public interest.

While recognising that a range of issues and concepts has been recycled in the period under review (Thomas 1985), it was necessary to limit the examination to the problematic issue of asset measurement. Furthermore, while the profession, in general, has been criticised for recycling accounting issues, an extensive examination of the activities of the research arm of the profession, the Australian Accounting Research Foundation (hereafter referred to as the Foundation or AARF), during the most critical years of the measurement debate was undertaken. Providing evidence that the AARF has been a key factor in ensuring the measurement debate remains unresolved. It will be argued that rather than adhering to the profession's claim of protecting the public interest, the motives of the AARF were tainted by the apparent need to
obtain and maintain domination thereby protecting its status quo. Throughout the study examples will be given clearly indicating that the economic self-interest of the AARF was often a priority, particularly when an economic crisis questioned their ability to find a solution to contentious.

Based on this research, it will be demonstrated that during the height of the measurement debate in the 1970's and 1980's the AARF attained domination, and used this domination to influence the thoughts and actions of other individuals and groups within the business community. The result was a failure to effectively resolve the problem of asset measurement. The refusal of the AARF to prescribe a single asset measurement approach in its recently released Research Monograph number 10 *Measurement in Financial Accounting*, makes it clear that as the twentieth century draws to a close, the measurement debate is no nearer resolution than it was at the end of the last century.

**A PROFESSION ACCUSED OF DOING NOTHING**

The ability of the accounting profession to obtain and maintain its domination can be associated with the profession's universal claim of specialised knowledge and abilities used in the public interest. Yet history and present day behaviour by the accounting profession and, individuals and groups representing the profession, contradict these claims. Rather than protecting the public interest, it would seem that priority is given to protecting the economic self-interest of the
profession. This is particularly evident when professional representatives respond to negative criticism, in a manner designed to combat threatening critics rather than implement lasting and credible solutions. It is behaviour like this that has seen ad hoc solutions being devised to problematic issues without the problem being rectified, causing everything old to be new again (Kurtovic and Cooper 1997).

Accusations of the profession's tendency to "do nothing" are evident in numerous writings. Mumford (1979) has argued that the response of the accounting profession during times of a crisis can always be foreseen. According to Mumford (1979) the inflation accounting cycle experienced in Britain during the 1970s was almost identical to that experienced twenty-five years earlier. Mumford (1979) claimed that so predictable was the profession's response to a crisis that their actions could be defined in eight stages,

first there arises an increase in the rate of domestic inflation, accompanied by a fall in stock market prices. Next the profession responds. Then government intervenes, on the grounds that broader social issues are involved than the profession can embrace in its deliberations. Stage four sees the publication of "radical" studies of accounting techniques, with strong proposals for reform. Not surprisingly, this leads to intense controversy within the profession. A compromise recommendation is put forward, but this time inflation rates are past their worst (and the stock market has picked up again); and in the final stage, interest in reform dwindles (1979, 98).

Brief (1975) has also written on this issue arguing that the apparent
need to protect the professions economic self-interest has on many occasions caused history to be repeated. An examination of topics of concern to accountants in the late nineteenth century has caused Brief to conclude

that most of the basic problems considered by accountants now are also those which have perplexed the profession for nearly a century. Thus despite all the changes in the business environment, controversy within the accounting profession today has remarkable similarities to the discussion taking place decades ago (Brief 1975, 285).

The work of Lee (1983, 24) has perhaps been the most vocal of all, contributing greatly to the accounting literature by examining the profession’s tendency to recycle unresolved issues, giving little regard for the public interest. Given that the profession has all too often chosen to support traditional methods of asset measurement, even if alternate methods were both available, and considered superior, has caused Lee (1983) to ask the crucial question

why a socially-valued and financially well-rewarded profession such as accounting should have, and be content to have, a relatively static body of knowledge in which major problems are investigated but not resolved, alternative theories remain theories, and research is desired but its findings are largely ignored (1990, i)

Public Interest: A Smokescreen for Protecting the Profession and its Own Economic Self-interest

Serving and protecting the public interest has long been perceived as
the greatest goal of the accounting profession. Readily used by the profession when responding to criticism, the claim of protecting the public interest has greatly contributed to the professional status of the accounting profession. As far back as the late 1800's, when the first accounting body was being established in the United States, it was argued that a professional accounting body was necessary in order to look after the public interest adequately (Lee 1990, 50). Yet defining what is meant by public interest has proven to be much more complex than simply claiming to protect it.

As a result of negative criticism that was endured by the accounting profession, the two professional bodies during the early eighties initiated an inquiry into disciplinary procedures in public interest cases. The inquiry was to examine the investigative and disciplinary procedures of the professional bodies when members of the accounting profession were found accountable. Despite the perceived importance of public interest, the final report failed to define, even once, the term "public interest" (Institute of Chartered Accountants in Australia and the Australian Society of Accountants 1980).

Serving the public interest holds many advantages for the accounting profession as it portrays a positive image to the wider community. However, being seen to fulfil this role is imperative for the profession's survival. Public criticism and scrutiny are never far from the accounting profession, particularly when it is perceived that the
profession is not working in the interest of the public (Puxty et al 1997, 8). The importance of public interest is reflected in projects such as the conceptual framework. The need to look after the public interest is reiterated, as general-purpose financial reports become crucial, to reassuring the wider business community that work is being conducted with the public interest in mind.

General-purpose financial reports focus on providing information to meet the common information needs of users who are unable to command the preparation of reports tailored to their particular information needs. These users must rely on the information communicated to them by the reporting entity (AARF 1997, 5).

In an interview with Warren McGregor the Director of the Australian Accounting Research Foundation, the research arm of the accounting bodies, public interest was seen as being an influential factor behind the work conducted by the AARF. McGregor stated that the main objective of the Foundation was

to act in the public interest and to ensure that, in doing so, we provide high quality information ... to investors, creditors and other decision-makers so that they can allocate their resources efficiently. ...I think we are agents of official capital markets and efficient resource delivery mechanisms (Interview with Warren McGregor 1997, emphasis added).

Contradicting these claims, is the history of the accounting profession both here and abroad, which illustrates a profession that may not have always been working towards protecting the public interest. Mitchell
and Sikka (1993) argue that despite the social status and prestige associated with the accountancy profession, the decisions made have often been motivated by the need to maintain the profession's status quo:

The Institution [accounting bodies] are dedicated to defending the status quo and sectional interests rather than the wider interests. Mystifying things rather than clarifying them. In much of the research, there is a general failure to recognise that problems of accounting and auditing are a consequence of particular institutional structures, which sustain the status quo by privileging and institutionalising certain world views (Mitchell and Sikka 1993, 29).

According to Mitchell and Sikka (1993, 29) the profession's ability to exercise power and influence everyday-life, seemingly unnoticed, is a unique trait possessed by the accounting profession.

**FOCUS OF THIS STUDY.**

The question of whether or not historical cost is the most appropriate method for measuring assets has long plagued the accounting profession. Despite claims throughout the years, both in Australia and abroad, that historical cost is not the most adequate method for asset measurement, it has continued to reign as the most accepted method available to accountants. Historical cost gained wide acceptance during the late 1800s when one report suggested the misuse of replacement cost caused a great surge of collapses throughout the railway industry.
in the United States (Hooper 1997, 37).

Although conscious of the criticism that circulated throughout the United States and the United Kingdom, Australia justified the continued use of historical cost on the basis that its application was consistent with already existing and accepted accounting principles and doctrines. It was not until the 1920s that the first serious criticism of historical cost appeared in Australia when Wunderlich, a businessman turned accountant, began to criticise the accounting profession for its continued support of the historical cost method (Walker 1971, 64).

Wunderlich's comments were made at a time when Europe was experiencing double digit inflation and was searching for an alternate method of asset measurement. Wunderlich's criticism proved to be the start of a stream of criticism that would continue throughout the rest of the century.

In the late 1940s Australian journals began to contribute to the historical cost controversy. Led by Professor Ray Chambers, Australian accounting literature also became preoccupied with the problems of historical cost. A problem, which was seemingly ignored by Australian accounting bodies until Australia too, crossed difficult economic times.

The ability of accounting authorities to combat criticism directed towards the profession's use of historical cost became difficult as the Australian corporate community entered a decade of disaster. The
1960s will long be remembered for the corporate collapses that plagued this country, and brought to an end the post-war economic boom. With the promise of high returns, many began to invest in what seemed to be healthy and viable corporations. Unfortunately, many later collapsed, often unexpectedly (Clarke et al 1997).

Given the number of unexpected corporate failures and the considerable economic losses that were experienced it was not long before the reliability of financial statements came into question. The adequacy of historical cost and the integrity of the accounting profession continued to be challenged during the 1970's, as many began to search for answers that would help explain why reportedly healthy corporations fell, causing many innocent investors to suffer great economic consequences.

In order to combat negative criticism, the accounting bodies had to search for ways that would restore the profession's reputation and assure the public that such a catastrophe would never be repeated. The answer to the profession's problems was to be a newly formed arm of the professional bodies known as the Research Foundation, which was later to be renamed the Australian Accounting Research Foundation (AARF).

One of the first major projects that confronted the AARF was to find and implement an alternative solution to historical cost. Despite devoting a
decade to asset measurement very little was accomplished by the AARF. This study will argue that the failure of the AARF to find a viable solution to the measurement issue was caused, in part, because its research activities were often sacrificed, as the need to maintain self-regulatory status and the status quo of the AARF became a priority. As will be demonstrated later in this study, whilst many awaited the implementation of an alternate method of asset measurement, the AARF was engaged in a hegemonic struggle with those who dared to criticise its actions, including such prominent academics as Ray Chambers. Written submissions to the AARF and statements by the AARF in the professional literature suggest that many critics were convinced by the AARF that their criticism were unwarranted, as it was apparent that they did not adequately understand the measurement issue, influencing them to accept the proposals put forward.

despite the extent of my disagreement in principle with the proposed statement, I support its issue. This is partly because I am in a minority of one in this respect, but more particularly the need for a system of Current Cost Accounting is urgent. Once the proposed statement has been issued it will have my support, and I will continue to work towards the development of additions and amendments within the AASC (Archive File 30, 1976).

The critics who were not so easily convinced, were publicly discredited for the views they held. These activities are at odds with the claim of protecting the public interest because they ultimately contribute to the inconsistency and diversity of measurement methods experienced today.
in the public and private sector.

Having failed to find a solution to the measurement issue, the Australian accounting profession followed the lead of the accounting profession in the United States, and began work on a conceptual framework. The purpose of the conceptual framework was to bring uniformity to standard setting and minimise the development of ad hoc or inconsistent accounting standards. Initially, the conceptual framework moved focus away from inflation accounting and the dilemma of historical cost. Eventually, however, asset measurement once again became a primary focal point. Forming part of the conceptual framework project, Statement of Accounting Concept number five (SAC 5) which was to guide standard setters in measuring the elements of financial reports has been met with difficulty. Marred by controversy, both within and outside of the AARF, SAC 5 could ultimately decide the future of the entire conceptual framework project.

Throughout this study it will be demonstrated that the issue of asset measurement has long been a vital issue within accounting. However, despite a substantial amount of time being devoted to finding an alternate method of asset measurement very little development has eventuated. It is this point that the thesis will attempt to answer, finding reasons for why as a profession we continually recycle important accounting information leaving vital issues as measurement unresolved and how as a profession we are permitted to do so? Evidence of
politically motivated and self-servining actions on behalf of the AARF will be exposed throughout this study indicating that the preservation of their status quo was more of a priority than protecting the public interest. The importance of this study is to expose possible reasons for the profession's lack of development on important issues, in the hope that acknowledging the impediments of our development will be the first proper step to actual development.

THE THEORETICAL FRAMEWORK

The theoretical framework adopted in this study is an interdisciplinary framework the foundation of which is based on Callon's translation process of power. Stemming from Machiavelli's concepts of strategies and alliances it will be argued that the AARF had formed certain alliances and implemented certain strategies in order to attain the domination that it had. At no time throughout this study will it be argued that power had been possessed by the AARF; rather, it will be demonstrated that the AARF had attained domination as a result of the actions by others permitting the AARF a certain dominance within the business community. This is based on the argument that, whilst power is not possessed, it is granted to a particular group through the actions of others creating an environment whereby strategies and alliances formed permit one group to dominate over other groups.

The existence of a dominant actor also requires there to exist a dominated actor thus giving rise to an agency relationship between
the dominant and the dominated. By domination it is meant that the dominant, the AARF, act as an agent to the dominated actors, claiming to be looking after their interests.

It will be argued in this study that the actions and behaviour of the AARF during the peak of the measurement debate were aligned with the four moments of Callon's translation process of power model, thus allowing a hegemonic environment to be created and the AARF to attain domination. Through the four moments of translation the AARF had tried to ensure that the wider business community, the dominated actors, became interested and supported the work of the AARF. It was through the translation process that the AARF had successfully managed to attain and maintain domination since its formation.

The ability of the AARF to enrol successfully a business community into accepting inadequate reforms for a considerable period of time will be explained through the interdisciplinary framework that will be adopted in this study. After an extensive examination of the activities undertaken by the AARF during the measurement debate, it will be demonstrated that the AARF had gained domination by making itself indispensable to the rest of the business community. After defining the existence of a potentially detrimental problem, the AARF had set about ensuring that it was seen as the indispensable actor, as the only actor that could find a solution to the defined problem. By openly declaring that it would be in the best interests of all to follow what the AARF
proposed, initial interest and then support was displayed towards the work of the AARF. By this stage the moments of translation had permitted the AARF to enjoy a certain dominance within society.

Insufficient to adequately explain the domineering actions of the AARF, the translation process of power is supplemented by several other sociological factors that are considered necessary in aiding the translation process. These include, discourse, isomorphism and ideology, all of which assist in the influence of the dominant, leading the dominated group of actors to accept often inadequate methods proposed by the dominant actor, resulting in the creation of a hegemonic environment.

Overall the theoretical framework will attempt to demonstrate how the AARF had attained and maintained domination during the peak of the measurement debate. It is hoped that in so doing the study will adequately address and answer the two pertinent research questions that are focused on in this study.

**OBTAINING ACCESS TO ARCHIVAL INFORMATION**

I have answered three questions, and that is enough, said his father. Don't give yourself airs! Do you think I can listen all day to such stuff? Be off, or I'll kick you down-stairs! (Carroll 1982, 44).

Research undertaken for this study has relied extensively on archival information; however the use of secondary sources has also been made.
In a period of two years in-depth archival research has been conducted at the AARF, and at the Australian Society of Certified Practising Accountants (ASCPA), in Melbourne. Information obtained from the archives at both the AARF and the ASCPA has been supplemented with interviews conducted at various intervals throughout this two-year period.

To answer the research questions put forward and in a bid to fulfill the requirement of originality it was necessary for the research which was conducted to go beyond readily available publications, most of which examine the issue of asset measurement. Given the crucial role played by the AARF during the measurement debate, extensive focus had been given to the information contained in the archives of the Foundation. Primary sources were used to retrace the activities of the Foundation in a bid to examine the activities that had taken place so many years ago.

The greatest challenge faced throughout the research period was the obtaining of necessary information to effectively undertake the study. After ascertaining that valuable information may be available I had approached the AARF requesting permission to use their archives. After extensive negotiations I was hesitantly welcomed into what was often a hostile environment to try and piece together the activities of the AARF throughout the most critical and controversial years of the measurement debate.
Although I had focused extensively on the archives at the AARF I had also conducted archival research at the Melbourne office of the Australian Society of Certified Practising Accountants. As the AARF had only been formed during the later part of this century I had to turn to the archives of the Society, a welcome change to the antagonistic environment of the AARF. The purpose of my archival research at the Society was to examine extensively the problem of asset measurement during the years prior to the formation of the AARF.

My archival research has also been supplemented by interviews that I conducted. All individuals interviewed had a direct part to play in the measurement controversy. Persons who were interviewed were Professor Chambers, Mr Chris Warrell and Mr Warren McGregor. All of the above mentioned parties have had extensive involvement with the issue of asset measurement throughout the years.

**FORMAT OF THE STUDY**

The following is a brief summary of the format that this study will take.

**Chapter Two**

In chapter two there will be an in-depth discussion of the theoretical framework that will be utilised in this study. Callon's translation process of power will be discussed, as it will be argued that the activities of the AARF throughout the measurement debate were consistent with the moments of translation. Examining various other
sociological issues such as discourse, ideology and isomorphism, the chapter will discuss how a combination of these sociological factors helps create a hegemonic environment in which the AARF became the dominant actor.

Chapter Three

Chapter three is an historical chapter that looks at the issue of measurement from the beginning of this century. Focusing on literature that had been written throughout the earlier part of this century, chapter three will look at how the issue of measurement became a problem of immense proportions that was ignored by the accounting profession for many years. Forming a basis for following chapters it will be demonstrated that many of the issues and problems that existed earlier in the century still confront the accounting profession today.

Chapter Four

In order to be able to examine the activities of the AARF during the measurement debate there has to be some understanding of the AARF and the reasons behind its formation. Chapter four will begin by examining the unexpected corporate collapses of the 1960's, which, as a result of investigations held by the accounting professional bodies, led to the formation of the AARF. An in-depth examination of the formation of the AARF will follow, in which archival evidence will suggest that the
AARF had been formed for reasons other than to protect the public interest.

**Chapter Five**

Extensively utilising the information obtained from archives, chapter five will trace the activities of the Foundation during the peak of the measurement debate. Concluding that self-interest rather than the need to protect the public interest may have motivated the actions of the AARF throughout this controversial period of the measurement debate.

**Chapter Six**

Chapter six focuses on the development to date of the yet to be issued Statement of Accounting Concept Number Five (SAC 5). Forming part of the conceptual framework project SAC 5 is to guide standard setters as to the basis of measurement of the elements of financial statements. Considered as one of the most important building blocks of the conceptual framework project, SAC 5 has been marred by great controversy both within and outside the AARF. Chapter six will look at this controversy drawing on the internal conflicts that have impeded the development of this accounting concept. This examination will also involve a close analysis of the newly released Accounting Theory Monograph, Number Ten *Measurement in Financial Accounting*. 
Chapter Seven

Chapter seven will focus on how the issue of asset measurement is dealt with today in both the private and public sectors. By examining various accounting standards within the private sector it will be demonstrated that the inability of the AARF to find an adequate solution to the measurement debate has resulted in a lack of uniformity within accounting practices. A close examination will then be made of the public sector and the way in which recent economic reforms have influenced the way in which the public sector has dealt with the problem of asset measurement.

Chapter Eight

Chapter eight will provide the summary and conclusions reached in this study.

The purpose of this study is twofold. This study will set out to substantiate claims that the accounting profession is guilty of recycling important financial accounting issues. Whilst at the same time, the study will identify and explain reasons as to why the accounting profession continues to recycle important accounting issues and why it is permitted to do so. While it is acknowledged that measurement is not the only issue subject to recycling, using measurement as an example will allow this study to substantiate the above claims and demonstrate that the activities of the AARF suggest a self-serving organisation rather
than one seeking to serve the public interest.

**EDITORIAL NOTE**

There are a number of what may appear to be spelling irregularities in this study. A major reason for these apparent irregularities is that source documents for the study have varied depending on the country of origin. The most notable of these irregularities is associated with words such as "problematisation" and "behaviour", which can also be spelt as "problematization" and "behavior". This alternate way of spelling these and other words will only be used when a direct quote from a source document is being used.
CHAPTER 2

THEORETICAL FRAMEWORK

THE TRANSLATION PROCESS OF POWER

This study will be undertaken within an interdisciplinary framework, the foundation of which will be Callon's translation process of power supplemented by essential sociological factors of ideology, discourse, isomorphism and hegemony. The purpose of this chapter is to examine the elements that make up the theoretical framework, which will be used in explaining the apparent self-serving behaviour of the AARF during the most critical period of the measurement debate. Based on Callon's translation process of power and the "traditional understanding" of power it will be argued that the AARF possessed dominance not power, a monopoly which was granted by the actions of others. The concepts of ideology and discourse will then be discussed in order to demonstrate how it was that the AARF attained and maintained dominant status throughout the measurement debate. The profession's continued claim of protecting the public interest will be used to demonstrate how the existence of an ideological ideal in society contributed to the AARF attaining domination. However, the activities of the AARF suggest a self-serving organisation rather than one seeking to serve the public interest.
INTRODUCTION

In the past, the accounting profession has been accused of recycling important accounting issues (Mumford 1975, Brief 1975), resulting in the claim that the profession is guilty of "doing nothing" (Lee 1990). Since professionalisation, accounting has, on numerous occasions, been called upon to respond to accusations that accounting practices are misleading. Such accusations have often been interpreted as a threat to the accounting profession. The response of the accounting fraternity to criticism has often been seen as looking out for its own economic self-interest rather than the public interest. The measurement of assets is an example of such a response.

Claiming to be intent on resolving problems facing the accounting profession, including the measurement issue, the two major Australian accounting bodies formed the AARF in 1965. However, later chapters will demonstrate that the actions undertaken by the Foundation to address the issue of asset measurement were tainted by the biased thoughts of a minority but dominant group thereby, substantially influencing the actions to be taken. As representatives of the profession, many of the actions of the AARF during the peak of this debate could be considered as self-serving. All too often proposals made by individuals or groups from outside the Research Foundation were ignored, as the AARF pursued the "solutions" it considered appropriate.
even if no one else agreed.

The ability of the Australian Accounting Research Foundation to successfully enrol the business community into accepting inadequate reforms for a considerable period of time will be explained through Callon's translation process of power, supplemented by other sociological factors, such as accounting discourse and isomorphism. This study will argue that accounting discourse and isomorphism were used by the Foundation in its hegemonic struggle against academics and accounting practitioners, whose criticism threatened the successful completion of the translation process.

For when potentially damaging criticism threatened the Foundation's dominant role in the measurement debate (as will be demonstrated in later chapters) accounting discourse was used to discredit unwanted criticism and reassure the public that the AARF was able to find a solution. The AARF also adopted isomorphic strategies to assist the Foundation to retain its dominant stance in the measurement crisis, by using the activities of its overseas counterparts to legitimise its own point of view. Specific examples of this isomorphic behaviour will be discussed in subsequent chapters.

Nonetheless, dissidence and resistance continued which, in turn, obliged the AARF to maintain its hegemonic struggle in order to retain its dominant position in the regulatory hierarchy of the accounting
professions.

Adopting the four moments of the translation process of power, being that of problematisation, interessement, enrolment and mobilisation, the Foundation's activities are traced in order to demonstrate how their domination was achieved and maintained. After "identifying" that the serious problem of asset measurement existed, the business community was engaged by the AARF which argued that not only had the Foundation identified the "problem" but that only the Foundation was capable of solving it. Even though the business community acknowledged the existence of the measurement problem and was apparently enrolled by the Foundation to believe it could provide a "solution", the Foundation often experienced dissidence and resistance to its proposed alternative measurement methods.

CALLON'S TRANSLATION PROCESS OF POWER MODEL.

The translation process of power model was explicated in Callon's work, *Some Elements of a Sociology of Translation: domestication of the scallops and the fishermen of St Brieuc Bay*. Callon's work focused on how three researchers, studying the declining population of scallops in St Brieuc Bay, became indispensable to the other actors, namely, the scallops, the fisherman of St Brieuc Bay and their scientific colleagues. Moving through the translation model, the researchers' (as the dominant actors) enrolled the other actors (the dominated) into believing
that a problem existed, and that it was in the best interest of all to ensure that it was solved. Once the existence of a problem was accepted, the researchers began to portray themselves as representatives of the dominated actors enroling them into believing that only they (the researchers) could find a lasting and credible solution. The translation model achieved the researchers dominance, an authoritative status as opposed to power in the bid to replenish the scallop supplies and maintain the livelihood of the St Brieuc fishermen.

The foundation of Callon’s work and the translation process of power can be dated back to the work of Niccolo Machiavelli. A former Secretary and Second Chancellor to the Florentine Republic, Machiavelli’s life was as varied as it was innovative. After a life of public duty and years of imprisonment and torture, Machiavelli turned to study and writing, producing well-known writings such as "The Prince". Inspiring the work of prominent scholars, Machiavelli’s work, whilst developed at the onset of modernity, has been acknowledged by both Foucault and Callon as being closer to the post-modern analysis of power than that of the modernist (Clegg 1989, 22).

Machiavelli, described power in the form of strategies and alliances. To Machiavelli, power was not something that any one person possessed. The ability to obtain and maintain power was dependent upon the success of one’s strategies. According to Machiavelli, power was the ability of an actor to successfully portray to others that power is
bestowed upon them and nobody else. Thus power was simply the effectiveness of strategies for achieving for oneself a greater scope for action than for others implicated by one's strategies. Power is not anything nor is it necessarily inherent in any one; it is a tenuously produced and reproduced effect which is contingent upon the strategic competencies and skills of actors who would be powerful (Clegg 1989, 32).

Machiavelli's approach to power has played a vital role in Callon's translation process of power and thus forms the origin of the sociological thought dominant in this study. After all, what was considered

most striking about power was its strategic, contingent, extensional nature, a concept of power dependant greatly on alliances, on strategies for its practical accomplishment (Clegg 1989, 202).

Machiavelli's theory of strategies and alliances, which is evident in Callon's translation process of power is relevant to this study due to its ability to explain the domination that the Foundation possessed from the time of its formation. For just as a well-planned bank robbery is based on strategies and alliances, so were the activities of the AARF when it was entrusted with the duty of solving the measurement problem.
Understanding the Translation Process of Power - Power, A Consequence Rather than A Cause

To understand the translation process of power model and its applicability to this study, one is compelled to revisit the basis on which this theory is grounded. No one person possesses power, the strategies and alliances adopted (by the dominant) and the actions of others (the dominated) give the illusion that power is possessed (Latour 1986). To view power in this way, is to adopt what Ball (1988) referred to as the "classical understanding" of power: the claim that it is not power which is possessed, but authority, which is granted by the actions of others is echoed in the words of Cicero Maxim

Power in the people, authority in the Senate (Ball 1988, 81).

The "classical understanding" of power that is adopted in this study can be traced back to the origin of the word "power". Derived from the French word Pouvoir that was in turn derived from the Latin word Potestas or Potentia, meaning ability. More specifically

Potentia referred to the capacity or ability of one person or thing to affect another [whilst] Potestas ... referred to the particular kind of Potentia possessed by people communicating and acting in concert (Ball 1988, 81).

Potestas was the capacity of the people to empower those in authority (Ball 1988, 81).

To see power as a consequence is to move towards the translation process of power model, a distinctly different approach to what Latour
(1986, 267) has referred to as the diffusion model, which sees power as a cause and not a consequence. According to the diffusion model, power is possessed and is used to achieve a certain outcome as described by Barnes (1986, 181-182; 1988, 2, Cooper 1994).

Power should be taken in the first instance as a theoretical term referring to distributions of capacities, potentials or capabilities (1988, 2).

A diffusion model has three important elements (Latour 1986 267) which uses power to explain collective action as a cause. Firstly, there is the initial force (of those who have power), secondly, there is the inertia that conserves this energy and lastly the medium through which this force is transmitted. It is through this medium that the power being exerted could begin to diminish due to resistance. The claimed advantage of the diffusion model is that either the initial force or the resisting medium can be used to explain an action. For example, if a command is obeyed then the dominant actor is said to have power; if, however, the command is not obeyed, then it is said that the command was met with resistance (Latour 1986, 267).

Just as there are perceived advantages of the diffusion model, there are also evident disadvantages (refer to Cooper 1994, Latour 1986), leading us towards the translation model. One of the first drawbacks of a diffusion model is the argument that an event or desired outcome is the direct result of the initial force. Giving no consideration to how the person or group seen to possess power arrived at that position or how
this perceived position of power could be lost (Cooper 1994). According to Latour

power ... has to be explained by the action of others who obey ... If the notion of "power" may be used as a convenient way to summarise the consequences of a collective action, it cannot also explain what holds the collective action in place (1986, 265, italics in original).

Furthermore, a theory grounded in the diffusion model does not consider the distinct difference that exists between the perception of possessing power and the ability to exercise power over another (Cooper 1994).

According to Latour (1986), the power that the dominant actor seems to possess is a direct consequence of the actions of others (the dominated), who, in a bid to fulfill and protect their interests, allow, through their behaviour and actions, the dominant to be viewed as having power. This, Latour (1986) argues, emphasises the problem of power, as there is a vital difference between having power and exerting power, for

when you simply have power - in potentia - nothing happens and you are powerless; when you exert power - in actu - others are performing the action and not you (1986, 264, italics in original).

To make his point, Latour (1986) likened this to Amin Gemayel of Lebanon. For whilst the palace of Gemayel is said to have power over Lebanon, his orders are seldom followed, thus resulting in Gemayel being powerless in practice. To Latour, power cannot be possessed nor can it be hoarded,
Either you have it in practice and you do not have it - others have - or you simply have it in theory and you do not have it (1986, 265).

The difference between having power and exerting power, according to Latour is in the actions of others. As

power over something or someone is a composition made by many people ... The amount of power exercised varies not according to the power that someone has, but to the number of other people who enter into the composition (1986, 265).

Just as the power of the researchers in St Brieuc Bay was granted by the actions of others, it will be argued later in this study that the dominance exerted by the Australian Accounting Research Foundation was as a result of the actions of others.

To accept the "classical understanding" of power, is to accept the translation process of power framework. Unlike the diffusion model, the translation model is based on actors, their interests, strategies and alliances, focusing on how the interests of those actors combined with strategies and alliances shape outcomes allow the dominant actor to be perceived as possessing power. The translation process of power has been defined as

attending to politically engaged agents seeking to constitute agencies, to constitute interests, to constitute structures, the method seeks to map how agents actually do "translate" phenomena into resources, and resources into organization networks of control, of alliances, of coalition, of antagonism, of interest and of structure. "Translation" refers to the methods by which these outcomes are accomplished (Clegg 1989, 204).

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Comprising four moments of translation (which will be discussed later in this chapter), the translation process of power, by adopting the concept of an agency relationship, becomes a mechanism through which the dominant actor uses the needs and interests of others to attain and maintain authority. Identifying the interests of other actors, the dominant actor becomes a representative of the dominated, creating an impression that only they can look after their interests. The translation process thus permits one actor to take control of another (Callon 1986, 224), as authority is given and an indication of power made, for

power is not ... possess[ed], it is something that has to be made. Who will make it? Others ... the only ones who are really powerful (in actu), therefore have to attribute their action to one amongst them who becomes powerful in potentia (Latour 1986, 274, italics in original).

Thus, whilst this study examines the activities of the Australian Accounting Research Foundation and the domination that it exerted in relation to the measurement debate, it is not claimed that the Foundation possessed power. Being the extended arm of the professional bodies the Foundation, portrayed as a representative of the wider business community, was granted authority by the dominated actors to find a lasting and credible solution to accounting problems. At times, this authority was threatened and even lost when proposed solutions were rejected by the business community. Examples will be evident throughout the study.
The Four Moments of the Translation Process

Taken together the four moments of translation, problematisation, interessement, enrolment and mobilisation form the means through which strategies and alliances are formed and domination attained. As Callon (1986) states

these moments constitute the different phases of a general process called translation, during which the identity of actors, the possibility of interaction and the margins of manoeuvre are negotiated and delimited (1986, 203).

Problematisation

The first moment of the translation process, problematisation, seeks to construct the indispensability of the dominant actor. In other words, in the first moment of translation a would-be agent seeks to create an agency relationship (Callon 1986, 204). Callon describes problematisation as

a system of alliances or associations between entities, thereby defining the identity and what they "want" (1986, 206).

A hegemonic environment is constructed as the would-be agent endeavours to enrol other actors into an agency relationship by advocating the indispensability of the agent's solutions (Clegg 1989, 204). Slowly, the would-be agent begins to fabricate its dominant status by establishing a control between itself and other actors, becoming the dominant agent of the agency relationship. In order to achieve this control, a 'necessary nodal point' (Callon 1986, 205) or
'obligatory passage point' (Clegg 1989, 199) has to be established. Doing this maximises the strategic alliance that is formed between the agent and the other actors. This nodal point is seen as a channel through which traffic between them occurs on terms which privilege the putative strategic agent (Clegg 1989, 199).

The first step in the problematisation moment is for a problem to be defined, to identify an issue that would bring the interests of all actors together. Thus, once the problem has been defined, actors, too, must be defined, as it is the needs and interests of these actors that permit the translation process to continue.

It is at this point that the obligatory passage point becomes vital due to the existence of predators that continually threaten the success of the translation process. It is the obligatory passage point that brings the actors together and thus helps minimise the threat of predators. The obligatory passage point works to show the actors that they alone cannot look after their interests and obtain the desired outcome. The actors must work in unison.

**Interessement**

The second moment of the translation process is that of interessement, which is described by Callon (1986, 206) as the locking of allies into place. It is during interessement that the agent seeks to define its position in the power framework by strengthening the agency relationship with the other actors, who eventually become dominated.
The moment of interessement requires the agent to interest or enrol other actors to be part of the agency relationship. Interessement is defined as

the process of 'interesting' or 'enroling' another agent to one's own agency: one agency attracts a second by coming between that entity and a third. Interessement is thus a transaction between three entities (Clegg 1989, 205).

The third entity or actor, being the group, may become a predator to the translation model as it seeks to define its interests in direct contrast to the agent. Interessement tests the relationship created during problematisation;

each entity enlisted by the problematisation can submit to being integrated into the initial plan, or inversely, refuse the transaction by defining its identity, its goals, projects, orientations, motivations or interests in another manner (Callon 1986, 207).

It is during the moment of interessement that the agent must cement the agency relationship so as to ensure that all actors are working towards a desired goal. The dominated actors must be protected from predators who have the potential to threaten adversely the translation process, which is done by placing building devices, also referred to as the device of interessement, between them and any other actor who thinks differently. Callon (1986, 208) claims that the etymology of the term interessement justifies its use, as to be interested is to be in-between (inter-esse), to be interposed.

Interessement helps finalise what was created during problematisation,
whilst preparing to enrol actors into the agency relationship. Minimising any potential threats as

interessement helps to corner the entities to be enroled. In addition, it attempts to interrupt all potential competing associations and to construct a system of alliances (Callon 1986, 211).

The moment of interessement is vital to the success of the translation process as it is this moment that verifies the validity of the problematisation moment.

**Enrolment**

The third moment of the translation process is that of enrolment. A crucial moment in the translation process, enrolment is often considered to be similar to the moment of interessement. However, a difference exists. The moment of enrolment is considered to be the process whereby agencies seek to construct alliances and coalitions between the memberships and meaning which they have sought to fix (Clegg 1989, 205).

The agent seeks to ensure that there is an alliance between the actors in the translation process. While the moment of interessement attempts to form alliances, it is not always successful for

no matter how convincing the argument, success is never assured. In other words, the device of interessement does not necessarily lead to alliances, that is, to actual enrolment (Callon 1986, 211).

It is in the moment of enrolment that alliances are achieved (Callon 1986, 211).
Mobilisation

The final moment of the translation process is that of mobilisation. Clegg (1989, 205) refers to mobilisation as a set of methods used to ensure that the enroled agencies do not betray the enroling agent. The mobilisation moment of the translation model is crucial to the success of the enroling agent and thus to the success of the translation process. For it is at this moment that the enroling agent wants to transform enrolment to active support (Callon 1986, 218). Thereby making the enroling agent a dominant actor over the enroled agencies (the dominated).

Dissidence

Despite successfully moving between the moments of translation, Callon (1986, 219) argues that translation can become treason at any time. Clegg (1989, 207) claims that the notion of power and dissidence is connected as there exists a continuous "struggle for power and a struggle to limit, resist and escape from power". It is at this point that the third group of actors, the predators, become critical. The dominant actors and their work are challenged and at times are even refused, having the effect of diverting the dominated actors away from the defined and often imposed obligatory passage points, which had brought all actors together.

Dissidence is a moment that can occur at any point of the translation process, resulting in the need to repeat one or more of the
moments of translation. The reason for this is that, although the four moments of translation are discussed in sequential order, it is not unusual for actors to move back and forth throughout the moments of translation, as a result of dissidence.

THE MOMENTS OF TRANSLATION AND THE MEASUREMENT DEBATE IN AUSTRALIA

The applicability of the translation process of power becomes evident with the in-depth examination of the actions undertaken by the Australian Accounting Research Foundation (the enrolled agent) during the critical years of the measurement debate, the 1970s. The behaviour of the AARF clearly demonstrated the need to ensure that all actors within the framework were heard in unison\(^1\). The following discussion does not attempt to argue that the actions of the AARF were undertaken in order to follow the translation process of power. What is argued is that, upon detailed examination, the actions of the AARF are consistent with the translation process, a means by which domination is attained as a result of the needs and interests of others.

\(^1\) The following discussion is meant to be an encapsulation of the applicability of the translation process to the measurement debate in Australia. Furthermore, this section will be used to identify the important actors of this study for later reference. A detailed discussion of the activities undertaken by the AARF which are in line with the moments of the translation process will be made in later chapters.
Just as Callon (1986) used the translation process of power to examine the situation in St Brieuc Bay, this study will also apply the translation process to the long-standing measurement debate within the Australian accounting profession. This framework, supplemented by other sociological approaches, will be used to demonstrate how the issue of measurement was highlighted as a problem of immense proportions and the AARF attaining dominant status as the only body able to solve the problem of asset measurement.

1. Problematisation

To clearly understand how the AARF reached this status, it is also important to understand the environment in which this translation process is argued to have begun and the problem defined. The Australian Accounting Research Foundation was formed in the late 1960's, (an event which will be discussed in detail in chapter 4). One of the first tasks facing the AARF was to find a credible and lasting solution to the measurement debate. Although shortcomings of historical cost had long been recognised, finding an alternative was an issue that had divided the business and academic communities. To complete successfully the task that it was given, the Foundation had to find a solution that would be agreed to by a majority- or at least the most powerful.

As will be discussed later, the general business community was skeptical of overall accounting practice. Australian companies had
experienced heavy economic losses during the 1960's and numerous corporations collapsed, some unexpectedly. Subsequent investigation of many of these corporate failures placed blame for the collapse at the feet of the accounting profession. The two professional bodies instigated their own investigation and concluded, inter alia, that, historical cost measurement was a factor in the unexpected corporate failures (Australian Society of Accountants 1966). In response, the accounting profession formed the AARF, a move that will, in later chapters, be argued to have been a self-interested move on the profession's behalf.

In relation to the measurement debate the problem identified by the AARF was the need to find an alternative measurement method to historical cost. The inadequacies of historical cost had been recognised since last century but had been disregarded by accounting officials until high levels of inflation precipitated acknowledgement of the measurement issue. Failure to resolve the problem of asset measurement could be detrimental to the accounting profession and the business community in general.

However, definition of the problem was not sufficient for the achievement of domination. A solution to the problem in the form of an alternative measurement method had to be formulated. A precursor to this development was the identification of actors to be enroled and persuaded to recognise measurement as a problem that could only be

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solved by the AARF.

1.1 *Actors in the framework*

The problem defined in this study brings together three categories of actors that are vital to the translation process. The first of these categories is that of the enrolling agent, (which also becomes the dominant actor), and in this case, it is the two professional bodies, initially and subsequently the AARF.

The second category of actors is that of the enroled agencies, also known as the dominated actors, the collective actions of whom granted the AARF dominant status. Actors within this second category have a particular interest or need which allows them to be incorporated in the translation process, as they become concerned with the work of the AARF and its achievement in finding a solution.

1.11 *Users and Preparers of Financial Statements.*

Both the users and preparers of financial statements had a direct interest in ensuring that the information provided was as accurate as possible. Neither group wished a repeat of the devastating sixties, as users of financial reports wanted information which they could depend on whilst preparers desperately wanted financial statements to regain the credibility that had been lost. Consequently both groups became interested in the project undertaken by the AARF as both stood to gain
favourably if the Foundation was successful in finding a credible alternative to historical cost.

1.12 Government:

Government also became an enroled agent in the measurement project of the AARF as the ability of the AARF to find a suitable alternative method to historical cost would also minimise the criticism directed at the government. The aftermath of those 1960s corporate collapses saw the government being targeted by unsatisfied investors, many of whom called upon the government to regulate the activities of the accounting profession.

1.13 Accounting academics and educators.

Acknowledging the limitations of historical cost as a method of asset valuation, accounting academics were also enroled in the AARF's attempt to better accounting practice. Accounting educators became dependent on the work of the AARF, looking to the enroling agent to find a solution.

1.14 Professional bodies.

By establishing the AARF, the Australian Society of Certified Practising Accountants and the Australian Institute of Chartered Accountants were both enroling and enroled agents. In other words, establishing the AARF was a problematisation strategy adopted by the professional bodies to demonstrate a commitment to the resolution of accounting
problems highlighted by corporate failures and their own investigations into the unexpected corporate failures. Discredited by the unexpected nature of the corporate failures, the professional bodies had a vested interest in the success of the work undertaken by their newly established research foundation. The AARF’s ability to find an adequate solution would help demonstrate the supremacy of the professional bodies over accounting as well as restore society’s faith in professional accountants.

The third and final category of actors identified in this study is that of the predator. The very existence of the predator group has the potential to thwart the translation process. It must be made clear from the start that whilst these actors are referred to as predators, they are only seen as a threat to the dominant group by questioning the ability and validity of the actions undertaken by them to protect adequately the dominated. Predators have the potential to jeopardise the status quo of the enrolling agent and force it to repeat some or all of the moments of translation. A hegemonic struggle ensues as the predator challenges the validity of the obligatory passage points established as a result of previous power translation. Meanwhile, the dominant fight to ensure that their indispensability to the finding of a solution is not discounted.

Numerous predators are identified in this study, including, the media, government, accounting practitioners, academics and any other individual or group which questioned the motives and/or outcomes of
the AARF's actions. As Sikka and Willmott (1995) argue, challenges can
come from many sources including from those

who have no desire to occupy the territory of [the
AARF] but can nevertheless advance some
competing discourses that may disrupt and
weaken the [AARF's] capacity to secure and
expand its domain (1995, 547).

It should be noted that the once dominated can become predators either
as a group or as individuals. For example, it will be demonstrated later
where accounting academics and practitioners were clearly divided as to
the appropriate method of accounting measurement. Consequently,
some supported the proposals put forward by the AARF whilst others
became predators and actually challenged the same proposals.

The vigour with which these predators questioned the work of the AARF
made the actors crucial in explaining the actions of the AARF, including
why the AARF was often hostile towards critics and why it would seem
that very little real development took place. These matters will be
discussed at length in subsequent chapters.

1.2 Defining the Obligatory Passage Point.

Once enroled in the agency relationship, the dominated actors accept
the dominant group as obligatory passage points. Therefore the AARF,
as the dominant group, needed to convince the enroled actors that they
all had a vested interest in solving the defined problem and neither the
dominant nor the dominated could attain the desired outcome unless
they all worked together. With the obligatory passage point defined as
the ability to implement successfully an alternative method to historical cost, the dominated actors had to be convinced that their alliance around this obligatory passage point could benefit each of them.

Hegemony begins to play a part in the translation process at this stage as the use of discourse is made to convince the actors that they must work together to reach the desired outcome. Only through their alliance and their passing through the obligatory passage point, created by the dominant, will the problem identified be resolved. The dominant group must demonstrate to the actors that, following what they advocate is in the actors' best interests. Thus by requiring all actors to work together and follow what is advocated by the AARF, passing through the obligatory passage point together, a hegemonic environment is created during the moment of problematisation (Clegg 1989, 205).

2 Interessement

As previously discussed, the moment of interessement is a point in the translation process which tests the relationship created in the first moment of translation. To establish a degree of stability and ensure that the dominated remain faithful to the AARF, devices had to be placed between the dominated and the dissidents. There were various devices that the AARF used, including:

- Carefully planned responses to critics who successfully voiced their
criticism against the AARF’s decisions.

➢ Ignoring or discrediting critics and their concerns by branding them as being ill-informed and failing to understand the significance of the work being conducted by the AARF.

➢ Responses made by concerned actors were often withheld and only certain information was released.

The above is only a sample of the interessement devices that were used by the AARF to come between the dominated actors and predators. Further discussion in relation to the actions of the AARF will be undertaken later in this study when an in-depth examination of the AARF’s actions during the seventies will be analysed.

3 Enrolment

Despite the interessement devices implemented in a bid to eliminate the threat of predators, there is always a possibility of interessement failing. Thus, to secure the loyalty of the dominated actors to the agent relationship, their interest must be enroled deeper into the translation process through predetermined, interrelated roles that each dominated actor has in the translation process. To ensure that alliances between those involved in the agency relationship were achieved, the AARF spent the better part of the seventies gathering support for its work.

As will be demonstrated later in this study, the dominated actors were continuously reassured that the AARF was well on the way to
finding a lasting and credible measurement solution. Alliances were forged as the dominated actors were permitted to contribute to the search by responding to exposure drafts that were issued by the AARF and by attending workshops and seminars. As the dominated actors fulfilled their roles, they became further enroled into the translation process and at the same time continued to grant the AARF dominant status.

4 Mobilisation

Despite passing through the moments of problematisation, interessement and enrolment, predators still remain a danger to the success of the translation process. In order to ensure that the dominated actors remain loyal to the process of translation, the dominant group must mobilise resources implementing various methods to ensure that the dominated actors remain enroleed in the agency relationship. Throughout the measurement debate there have been instances when the actions of the AARF are consistent with the moment of mobilisation, as will be demonstrated throughout this study.

When the actions undertaken by the AARF and decisions made by it were questioned, the AARF usually responded with action. Exposure drafts were issued, public hearings were held and continual overseas correspondence was maintained all in a bid to demonstrate the AARF’s ongoing commitment and ability to solve such a complex problem as asset measurement. All too often, the results from such action were
minimal with little actual development eventuating. However, the simple act of preparing for the development of an exposure draft or other official publications was enough to keep the dominated actors enroled in the translation process.

Although collectively, the four moments of translation are referred to in sequential order, the actual progression through the moments within an organisation and other structures are far from consecutive. Actors move within the model, passing through the four moments continually as the dominant attempt to ensure that any potential threat to their domination is eliminated. Thus, whilst initially the actors can move from the first moment (the moment of problematisation) to the last moment mobilisation, the end of the translation process has not necessarily been reached.

Even if the moment of mobilization has been reached, the success of the translation process of power can be threatened. The stance of the dominant may be threatened thereby igniting a hegemonic struggle, which causes a move backward through the moments of translation in order to counter attack the predators and reiterate the dominant stance of the enrolling agent.

**IDEOLOGY, DISCOURSE AND ISOMORPHISM - TOOLS IN ASSISTING THE TRANSLATION PROCESS OF POWER**

Ideology, discourse and isomorphism are just as important to
maintaining the perceived power of the dominant actors as are the moments of translation. The translation process on its own, within the context of this study, is not seen as sufficient to explain adequately the domination that the AARF exercised during the measurement debate. For the dominant to successfully move through the translation process (enrolling actors into their beliefs), there must exist certain ideals in society, politically motivated perhaps, but strong enough to influence the actions of the dominated. Lockwood (1964) terms this as systems integration. In which "material conditions" of techniques are used as pathways of force on the obligatory passage points (Clegg 1989, 224). Clegg (1989) defines material conditions as

> technological means of control over the physical and social environment and the skills associated with these means (Clegg 1989, 224).

Brought into the context of this study, it will be claimed that the translation process, whilst a primary factor, is on its own not sufficient to explain the AARF's domination. Rather a strong ideal must first exist in society that impels the dominated actors to accept the often-inadequate methods proposed by the AARF, in turn creating hegemony within the agency relationship. Lockwood (1964) terms this as social integration, where those within the system have to be convinced what is being proposed is correct. This is achieved, according to Clegg (1989, 224) by

> Fixing or re-fixing relations of meaning and of membership.
Therefore, according to Clegg (1989, 224) the concept of social integration is looked at in terms of "meaning and membership" whilst social integration is conceptualised in terms of material conditions. Thus within this study it is the rules of practice, membership and meaning that allow the accounting profession to dominate accounting activities, coupled with the "material base" which could be seen as the accounting profession's obligation to protect the public interest (Cooper 1994, 40).

**Gramsci and Ideological Hegemony**

From the above discussion, it is evident that the continual movement through the translation process does not in any way shield the dominant actor(s) from the potentially harmful threats posed by predators. Rather the dominant actor is continually faced with challenges from predators and other dominated actors who are on the verge of abandoning the agency relationship, thus endangering the translation process.

In order to stabilise and protect its governing position, the dominant actor must create a hegemonic environment (Bilton et al. 1996, 292). To establish successfully hegemony within the translation process, the dominant actor must ensure that there is general belief and acceptance of the ideas that they are trying to secure. A certain ideology must exist within society, and hegemony would be the result of the existence of this ideology.
Throughout the remainder of this chapter substantial focus will be placed on the work of Antonio Gramsci to demonstrate that ideology is a vital factor in the process of attaining domination. A journalist turned militant in the Italian communist party, Gramsci, after his capture by Mussolini spent the final decade of his life in a prison cell, and it is from prison that his greatest contribution to philosophy was made. Considered to be one of the most important Marxist thinkers of the twentieth century (Abercrombie et al. 1984, 188), Gramsci wrote what has been described as the culmination of his theoretical work, the *Quadernidel Carcere* or *Prison Notebook* (Boggs 1976, 14).

Through Gramsci's work, traditional Marxism was taken a step further as Gramsci argued that economic factors or coercive movement alone could not explain domination of one class over another. Emphasising the importance of ideology Gramsci claimed that

> [securing] the domination of the capitalist class ... required political force, and much more importantly, an ideological apparatus which secured the consent of the dominated class (Abercrombie et al. 1984, 188-189).

Whilst hegemony was the primary issue captured by the writings of Gramsci, several other important themes were also formulated in the *Prison Notebooks*. The role of ideology in attaining hegemony was one such theme which gave rise to what Gramsci referred to as "ideological hegemony" (Boggs 1976, 17).

Consistent with the translation process, Gramsci held the view that
domination was attained as much through popular "consensus" as it was through physical coercion (Boggs 1976, 17). It is at this point that the work of Gramsci departs from that of traditional Marxism. For, unlike the Marxist approach to power, which focused on force and coercion, Gramsci claimed that no establishment, regardless of how dictatorial it was, could sustain domination through the force of power alone. Gramsci believed that there was a missing factor in the work of Marxism, which could adequately explain how it was that one class could dominate another, and that factor, Gramsci claimed, was ideology. According to Gramsci there was a need to understand the

subtle but pervasive forms of ideological control and manipulation that served to perpetuate all repressive structures (Boggs 1976, 38).

Domination, therefore, was attainable through "legitimacy" or popular support granted by the existence of what Gramsci called ideological controls (Boggs 1976, 38).

**Forms of Ideological Control**

The forms of ideological control that Gramsci spoke about included structures and groups like schools, churches, trade unions and the like. Establishments such as these dictated certain morals, beliefs, attitudes and values, beaming ideals out to society which become accepted as do the class interests of those who dominate. This idea of ideological control helps define what Gramsci considered to be hegemony:
Hegemony in this sense might be defined as an 'organizing principle', or world-view (or combination of such world-views) that is diffused by agencies of ideological control and socialization into every area of daily life. To the extent that this prevailing consciousness is internalized by the broad masses, it becomes part of 'common sense'; as all ruling elites seek to perpetuate their power, wealth, and status, they necessarily attempt to popularize their own philosophy, culture, morality, etc and render themselves unchallengeable, part of the natural order of things (Boggs 1976, 39).

Hegemony, therefore, can be defined as the domination of one group of people over another, maintaining the dominant actors' status quo despite the existence of an often much larger group of people holding different opinions (Cooper 1994, 176). This domination is not necessarily built on force, but by the creation of widespread acceptance by society of the ideas and programs which the dominant want to secure (Bilton et al. 1995, 292).

In what was referred to as Gramsci's first model of hegemony (refer to Bocock 1986, 28), it was claimed that cultural and moral leadership was vital for such acceptance and thus a clear understanding of hegemony. Leadership permitted the dominant group to change the views of society, and thus attain domination, resulting in a hegemonic environment which can be created through non-coercive tendencies.

Following from the idea of leadership, Gramsci argued that hegemony could be exercised both through the economy and the state. The economy being described as the site of work disciplines, the cash nexus
and monetary control (Bocock 1986, 28), whilst the state was described as incorporating the activities which work towards preserving the superiority of the dominant actor. To Gramsci, economic consideration of only the coercive side of hegemony was not sufficient to fully understand how one class is able to dominate another;

the state cannot simply take on board the narrow corporate economic interests of a particular class; it must instead make political and economic compromises and assert that it reflects universal interests (Cooper 1994, 179).

According to Gramsci the state, which is divided into political and civil society, brings together both the coercive and consensual aspects of hegemony. Political society is argued to be the site of coercive power, which takes the form of police and armed forces, carried out by cultural, political and economic forms. Civil society, on the other hand, is made up of influential groups including churches and the media. These groups work together to create a hegemonic environment through the acceptance of ideas.

According to Cooper (1995, 177), the accounting profession is in a unique position as it can be identified as being part of both political and civil society, fulfilling the characteristics of both groups. The first and foremost characteristic of influential groups within civil society is their habitual act of promoting the ideology of their status quo whilst at the same time acting in a manner which is seen to uphold existing social order (Cooper 1994, 178). This theme is demonstrated throughout this
study as evidence is presented clearly indicating that the actions of the accounting profession, or more appropriately the AARF, are influenced by their need to maintain their status quo whilst portraying the image of looking after the public interest. The second characteristic which influential groups of civil society are said to possess is that of neutrality, whereby the influential group refuses to be aligned with any particular party whilst at the same time acting in the interest of the state. Cooper (1995, 178) argues that the accounting profession, with its claim of neutrality, can be viewed as part of civil society.

The accounting profession is also identified as part of Gramsci's political society. Unlike civil society, political society is the more coercive arm of the state made up of the police, army, the prison service, the law courts, tax collection agencies and the like (Cooper 1994, 178). The accounting profession is said to form part of this group as many of the profession's powers are derived from the state's coercive ability, as the following examples identified by Cooper (1995, 178) indicate;

- In many European countries accounting profit is the figure used for taxation purposes.

- In the UK, the government has given effective control of financial reporting to the profession through the review panel.

- In the UK, trade unions have to prepare and submit audited accounting returns; and companies, which have a qualified audit
report, are sometimes prevented from trading their shares.

➢ In the US the power of the Financial Accounting Standards Board (FASB) relies on the backing of the SEC and the Department of Justice.

➢ In Australia the two professional bodies, the Institute of Chartered Accountants in Australia (ICAA) and the Australian Society of Certified Practising Accountants (ASCPA), effectively dominate the standard-setting process through control of the AARF which provides technical support in the development of approved accounting standards.

Consensual hegemony, closely aligned to ideological aspects, begins to play an important role in understanding how domination is attained as it becomes clear that consensual hegemony can be even more successful in attaining dominance than coercive hegemony particularly as there is a danger that governing powers [could] lose credibility if they resort to violence too frequently. Power is more powerful if it is invisible, disseminated throughout the texture of social life and thus “naturalized” as custom, habit or “spontaneous” practice. This is the major arena of the accounting profession (Cooper 1994, 179).

Gramsci’s concept of ideological hegemony provides a new way of considering class domination and is a new way of looking at how the AARF attained and maintained domination.
Defining Ideology

Generally regarded as beliefs, attitudes, opinions and values, ideology has, through the years, been graced with a variety of meanings, earning the title of the most debated concept in sociology (Abercrombie et al. 1984, 206). To indicate the variety of meanings associated with ideology, Eagleton (1991, 1) constructed a detailed list depicting the various definitions of ideology that have been used, indicating that not all of the definitions given are compatible with one another;

- the process of production of meanings, signs and values in social life;
- a body of ideas characteristic of a particular social group or class;
- ideas which help to legitimate a dominant political power;
- false ideas which help to legitimate a dominant political power;
- systematically distorted communication;
- that which offers a position for a subject;
- forms of thought motivated by social interests;
- identity thinking;
- socially necessary illusion;
- the conjuncture of discourse and power;
➢ the medium in which conscious social actors make sense of their world;

➢ action-oriented sets of beliefs;

➢ the confusion of linguistic and phenomenal reality;

➢ semiotic closure;

➢ the indispensable medium in which individuals live out their relationships to a social structure;

➢ the process whereby social life is converted to a natural reality.

From the above list, it becomes clear that ideology remains a complex sociological issue. However, perhaps it is the work of Louis Althusser that brings clarity to what ideology represents:
Ideology provides the framework in which people live their relationship to the social reality in which they are located. Ideology forms subjects, and in forming them locates them in the system of relationships necessary for maintenance of existing class relations. Ideology 'interpellates' - or 'hails' - individuals as subjects of the system: it gives them the identity necessary to the functioning of the existing state of affairs. This identity is constituted materially, concretely in various practices - ritual practices like shaking hands or praying. 'Obviousness' - taken - for - grantedness - is quite characteristic of ideological practices; and it is so because these practices are inseparable from the way that people live out the spontaneous and immediate aspects of their 'existence'. No one is unaffected by ideology in this sense. No society is without this spontaneous, practical level of existence. Everyone is in ideology; no one escapes it. Everyone is constituted as a subject in these material practices (Lechte 1994, 40).

Moving along with Gramsci's concept of ideological hegemony, it would seem that the term ideology makes reference not only to belief systems, but also to questions of power. The claim that ideology legitimises the dominant group would require studying ideology and the way in which meanings serve to sustain domination (Eagleton 1991, 5). Eagleton argues that to legitimise domination, the following six steps would have to be undertaken (1991, 5):
A dominant power may legitimate itself by *promoting* beliefs and values congenial to it; *naturalizing* and *universalizing* such beliefs so as to render them self-evident and apparently inevitable; *denigrating* ideas which might challenge it; *excluding* rival forms of thought, perhaps by some unspoken but systematic logic; and *obscuring* social reality in ways convenient to itself. Such 'mystification', as it is commonly known, frequently takes the form of masking or suppressing social conflicts, from which arises the conception of ideology as an imaginary resolution of real contradictions (1991, 5-6 italics in original).

Ideology should not be considered as outside of the realm of discourse but very much within it, as is described by Hall:

> By ideology I mean the material frameworks - the languages, the concepts, categories, imagery of thought, and the systems of representation - which different classes and social groups deploy in order to make sense of, define, figure out and render intelligible the way society works. The problem of ideology, therefore, concerns the way in which ideas of different kinds grip the minds of masses, and thereby become a 'material force'. In this, more politicized, perspective, the theory of ideology helps to analyse how a particular set of ideas comes to dominate ... social thinking ... and maintain its dominance and leadership over society as a whole (1983, 59).

Ideology is seen as an alliance between discourse and political interests making reference to the way in which signs, meanings and values generate a dominant power (Cooper 1994, 180). Consequently, it would be more appropriate to view ideology as an effect within accounting discourse, as it is through accounting discourse that an ideological set is sustained. Within the realm of accounting, certain discourse has been adopted creating an ideology which makes certain signifiers such
as shareholders, efficiency, relevance and profit more dominant, and as a result brings closure to the profession (Eagleton 1991, 5). After all, it would be "ideologically ungrammatical" to suggest that a loss is better then than a profit (Cooper 1994, 180).

The idea of ideology and discourse becomes relevant to this study as it can be used to explain how dominant actors become enroled in the translation process. Cooper (1995, 181) uses the work of Belsey (1985) to argue that the world is only intelligible through discourse, and it is language which allows the creation of subjectivity:

The role of language in the construction of subjectivity is one way of comprehending the invisible process of social control in which we "willingly" adopt the subject positions and actions necessary to continuance of the social formation; how we "allow" closures and the dominance of certain signifiers (Cooper 1994, 181).

The subjectivity created through the use of discourse is the persuasive factor that enrolls actors, as participants in the activities of the dominant actor as the interests of the dominant become legitimised, creating closure.

It was through the use of accounting discourse that the AARF was empowered to strive for domination, giving the AARF its hegemonic status and ability to move through the translation process, enroling dominated actors into the created ideal. Discourse has the ability to change the lenses through which the world is viewed and the AARF used this to its advantage.
Detailed evidence will be provided later to suggest that the AARF would publicly declare many times that great support existed for a particular method or activity advocated by the AARF, when in actual fact, that was not the case. For example, in some cases ninety nine percent of submissions were critical of an AARF proposal. Nonetheless, the AARF would declare that there was majority support for its ideas. This approach effectively silenced the majority which was led to believe that it was a minority in its thoughts. It is domination such as this that will be demonstrated throughout this study indicating that the AARF, through the use of accounting discourse, was able to silence some of its predators, often convincing the predators that they did not adequately understand the issues at hand. Predators who could not be silenced so easily were openly discredited by the AARF. Through the means of correspondence, seminars and publications, the AARF set an ideology of what should be and politically attempted to exclude anyone or anything that stood in its way.

For the AARF to successfully utilise discourse for its own hegemonic means, there had to exist a certain ideological set, which the dominated would also have to acknowledge and try to work towards. This ideological set consisted of the solutions that the AARF saw as appropriate to solving the problem of measurement and thus required all to follow. This perceived ideal by the AARF had no room for alternatives, unless they were initiated by their counterparts overseas.
Only then, with accounting discourse intertwined with the existence of such an ideological set within society, has the dominant actor the ability to maintain its dominant status quo. The dominated are, therefore, easily convinced that the ideal, as perceived by the AARF, is the only viable stance and anybody thinking differently has an inaccurate comprehension of the situation at hand. The Foundation had, at times, the ability to turn common sense into insanity because they held social control:

These insights indicate that the acquisition of accounting language is an important influence on the construction of our subjectivity. The role of language in the construction of subjectivity is one way of comprehending the invisible process of social control in which we “willingly” adopt the subject positions and actions necessary to the continuance of the social formation; how we “allow” closures and the dominance of certain signifiers (Cooper 1994, 181).

The AARF used discourse to attain or strive towards an ideological ideal, which was implanted by the dominant actor upon the dominated.

**Isomorphism**

Once a particular ideology is created it becomes difficult to question what is seen as true. In the case of the accounting profession, it becomes difficult to question accounting discourse as it has been legitimised. Cooper (1995, 182) argues that, whenever the accounting profession is faced with new problems, solace is found with historically derived signifiers in order to deal with the dilemma. This action allows
accounting discourse to be considered as "ideologically grammatical".

Drawing strongly from neo-classical economics (refer to Tinker 1980, Hunt and Hogler 1990), the role of accounting is said to be that of providing neutral information to decision-makers in order to allow for efficient and effective decision-making. Ideology, it is claimed, 'works' through the alignment of accounting to such issues as efficiency and effectiveness to create the ideal that accounting is associated with such beneficial signifiers, making the task of questioning accounting discourse difficult, as to do so would require questioning accounting history. Thus, "common sense" tells us that accounting is right (Cooper 1994, 184). The claim of neutrality, relevance and reliability within accounting is strong, and today, underpins the Australian conceptual framework making accounting powerful and to some extent unquestionable:

Accounting's link with neo-classical economics and its common sense claims to being neutral, objective, relevant and reliable ... make [accounting] an extremely powerful signifier. This renders accounting arguments difficult to counter (Cooper 1994, 184).

The inability to question the set ideal that is created ensures continual support for the dominant actor and interests. The need to uphold the dominant status quo could explain the often isomorphic behaviour of the accounting profession that has been portrayed during the years, particularly the strong resistance to change that has long been evident. As will be discussed in later chapters, resistance to change was
apparent during the most critical years of the measurement debate. DiMaggio and Powell (1983, 150) identify resistance to radical change as a process achieved through institutional isomorphism, which effectively institutionalises responses or rules of practice, greatly affecting possible advancement (Cooper 1994, Clegg 1989). Three mechanisms of institutional isomorphism were identified by DiMaggio and Powell, that of coercive, mimetic and normative isomorphism (1983, 150).

Uncertainty is often a major threat to the agency relationship existent in the translation process, therefore proving a threat to the domination of the dominant actor. Dealing with this uncertainty leads to homogeneity in structure, culture and output. Isomorphism, therefore, has been described as

a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (DiMaggio and Powell 1983, 149).

Institutional isomorphism rather than competitive isomorphism is best applied in this study, as it is the former which recognises that competition exists not only for resources but also for political power and institutional legitimacy (DiMaggio and Powell 1983, 150).

**Coercive Isomorphism**

Coercive isomorphism results when one group exerts pressure on another group that depends upon it. This pressure can be viewed as a force, persuasion or even as an invitation to collusion and is often a
response to the threat of outside intervention (DiMaggio and Powell 1983, 150). Cooper (1994) uses the example of share issue to describe coercive isomorphism within accounting. When corporations want to issue shares to the public, Directors of the corporation are required to follow both the Corporations Law and stock exchange listing requirements. The ability of the corporation to successfully undertake a share issue is dependent upon the accounting profession to prepare true and fair financial reports; thus the corporation is subjected to coercive isomorphism.

Coercive isomorphism is also evident in the measurement debate when the AARF strove to ensure that support for its domination remained. During this time accounting activities of the dominated were restricted to historical cost measurement while the AARF endeavored to find a lasting solution to the measurement problem.

**Mimetic Isomorphism**

When uncertainty becomes an issue, imitation is encouraged as organisations model themselves on other organisations in the search for legitimisation. Imitation, or mimetic isomorphism, is evident throughout accounting history. For example, the long struggle for a Royal Charter by the antecedent bodies of the ICAA minimised the actions of United Kingdom accounting bodies such as the ICAEW (refer to Cooper 1994). In more recent times when the Australian accounting profession, like its counterparts in the United States, thought it
important to develop a conceptual framework, they effectively ignored the complexities faced by the United States in this endeavour.

From the outset, the Australian conceptual framework resembled the conceptual framework developed by the FASB. For instance, the need and purpose for developing a conceptual framework bore striking resemblance to that put forward by the FASB, for example, both cited consistency of accounting standards as the main reason for developing a conceptual framework. Also, threats to their dominant position were a reason, as the FASB actually stated a conceptual framework was necessary to combat interference. In Australia, the move to develop a conceptual framework coincided with proposals to create an Accounting Standards Review Board (ASRB) which would be independent of the accounting professional bodies.

Yet it has been argued that both countries used the conceptual framework as defense mechanisms aimed at legitimising accounting standards and the profession's domination of the standard-setting process (Cooper 1994) because ideology created by a conceptual framework was difficult to question. Hines (1989) supports this argument concluding that conceptual framework projects were little more than
strategic maneuvers aimed not only at legitimising accounting standards but also the status and self-regulation of the accounting profession. ... Even if the projects were technical failures, undertaking them created the impression that the profession had ... a coherent differentiated knowledge base for accounting standards (1989, 85-89).

Mimetic isomorphism was also evident during the measurement debate, particularly when the work of the AARF became threatened by questioning critics. By mimicking work developed overseas, particularly in the United Kingdom, the AARF was working towards gaining greater acceptance for its work. The AARF repeatedly, as will be discussed in later chapters, corresponded with overseas counterparts obtaining detailed information about the work conducted abroad and often choosing to withhold major developments until after overseas pronouncements were developed and issued.

**Normative Isomorphism**

Normative isomorphism is said to be derived primarily from professionalisation, with a strong focus placed on education, as a group of individuals works towards defining its work and those who will take part within its elite assembly (DiMaggio and Powell 1983, 152, and Cooper 1994). Education has always played a substantial role within the accounting profession, visibly controlling who becomes a member of the accounting professional bodies. For example, the professional accounting bodies have imposed stringent educational requirements, including successful completion of a university-accredited degree and
subsequent professional development studies, before one is permitted to use the membership designations of the professional bodies. These requirements, which the professional bodies claim are needed to ensure that only well trained individuals practice accounting, create closure within the accounting profession and limit the opportunities of non-members (Cooper 1994).

However, such a strong emphasis on formal education and training does not mean that the knowledge possessed by members can be easily codified (Cooper 1994). Nor does it mean that the profession is prepared to deal with all potential problems with which it will be faced. It is at this point that the importance of normative isomorphism to this study becomes evident, for, despite the extensive educational training provided, complex issues such as measurement remain unsolved. The preoccupation of ensuring professional closure through education is often at the expense of providing relevant and reliable information to those that the accounting profession is to serve.

**Serving the Public Interest - A Self Created Ideology**

Earlier sections of this chapter were concerned with an examination of how the AARF and other actors moved through the translation process. It becomes important now to explicitly address the ideology that existed allowing the Foundation to attain domination. It must be made clear that when the AARF was formed during the sixties, there already
existed, as with any profession, a certain ideological set within society, portraying the accounting profession as promoters of the public interest.

When the AARF was officially formed, the accounting profession was still in its infancy, particularly when compared to the legal and medical professions. Nonetheless the accounting profession had already faced substantial criticism for the economic catastrophes both in Australia and abroad. Openly acknowledging that the public interest was the foremost consideration of the accounting profession (Puxty et al. 1997, 33), accounting authorities were self-portrayed as looking after the public interest. Expressing alternative motives, creating an ideology that the accounting bodies knew best and thus showing that it could be trusted to solve any major dilemma that should arise, so giving the accounting profession the prominence that it desired, a point which will be demonstrated throughout this study.

It was into this ideal that the AARF had evolved. Formed just as Australia began to recover from the rash of unexpected corporate collapses of the sixties (further discussion on the corporate collapses and the formation of the AARF will be made in later chapters), the AARF was to be the answer, protecting the public from such further occurrences. With an ideological set in place, a majority of the business community welcomed the formation of the AARF, believing that this extended arm of the professional bodies would ensure that those who
dealt with corporations would be protected.

**Professionalisation - The Genesis of A Self-Created Ideology**

The creation of the public interest ideology can be traced back to the early days of professionalisation when serving and protecting the public interest was the proclaimed goal of accounting and the means by which professionalisation was achieved.

During the 1800's in Scotland, the duties of public accountants became threatened as it was proposed to centre bankruptcy laws in London thus taking away much of the work that was dominated by Scottish accountants (Cooper 1994, 73). In order to combat proposals, these accountants throughout Scotland united, arguing the importance of permitting accountants to become a profession in their own right. It was during this campaign that accountants began to cite the need to protect the public interest as the greatest reason for professionalisation. As competitive pressure mounted (Stewart 1975), ideology was created as accountants argued that the public had to be assured that only qualified individuals undertook the work of an accountant, and professionalisation was the only answer.

Once the Royal Charter was granted, the newly formed profession had to ensure that the elite structure was protected. In the name of the public interest, attempts were made to create a monopoly aimed at thwarting infiltration of the closed shop by non-member accountants. It
was argued that to maintain a monopoly would be beneficial to the public as accounting activities would only be undertaken by qualified accountants, regulated and controlled by stringent examination requirements to ensure that the public received the best services (Lee 1995, 53).

Creating the ideal that accountants organised as a professional group were more qualified and better able to protect the public interest was not restricted to the UK. The United States had also moved towards professionalisation during the late 1800's when extensive economic expansion saw an increase in business activity throughout the United States. The increase in business activity, in turn, opened many doors for accountants. With no professional body in existence at the time of this economic growth, moves were initiated for the formation of a professional body and in 1882, the first United States professional accounting body was formed.

Formation of accounting organisations, however, was not enough to confer legitimacy and status on the would-be profession, nor did it guarantee domination and control of accounting practice. The call for quality financial reporting, coupled with the need to combat public criticism and close scrutiny that the profession endured, brought to light the need for self-regulatory status, both in the United States and in the United Kingdom. It was hoped that achieving self-regulatory status would help eliminate the constant threat of outside intervention
that loomed over the accounting profession (Lee 1995, 55).

In a bid to demonstrate its professional status, the accounting bodies lobbied, in the name of public interest, to have accounting education integrated into respectable universities. According to Lee (1995, 55), this strategy aided the profession's own economic-self interest, for two main reasons. Like other established professions, having accounting taught at universities identified the discipline with other professions at the same time eliminating the burden of education from the shoulders of the accounting profession.

Education was but one way of establishing the professional status of accounting. The newly formed profession endeavoured to increase its status within society by demonstrating that, like all other professions accounting possessed a unique body of knowledge. For example, journals were published depicting accounting knowledge and accounting libraries appeared in prominent buildings. Another professionalisation strategy was the response of accounting bodies to criticism of accounting practices. During the great depression, in the wake of the Wall Street crash, accountants and inadequate financial statements were blamed for the economic catastrophes that occurred. In response to its critics, the profession shifted the focus from the perceived inadequacies of accounting towards standards, which would guide accounting practice and prevent such catastrophes from occurring again (Lee 1995, 57). This response may have been in the
public interest but it certainly furthered the economic self-interest of the profession. For, as a result, responsibility for determining the context of financial statements was delegated by the Securities and Exchange Commission (SEC) to the accounting bodies (Chatov 1975, Cooper 1994)

The developments of professionalisation in the United States and particularly in the United Kingdom had a profound affect on Australia. Like our overseas counterparts, Australian accountants had to protect themselves from negative economic and other societal influences. Made up of colonies during the 1800's, Australian public accountants became interested in securing a charter as a hallmark of accounting as a profession.

It [a Royal Charter] is the academic hallmark of Great Britain and its dependencies, and has had, ... a particularly significant effect upon the profession of accountancy since the issue of a charter to the Scottish accountants in 1854, and to those in London and elsewhere in 1880, since which dates the appellation "Chartered Accountant" has become prima facie evidence of integrity and ability in Great Britain (Editorial 1905, 4 - 5)

During the late 1800's, prior to Federation, the Australian economy began to prosper. Everything from production to employment from immigration to capital formation flourished, resulting in Australia boasting one of the highest living standards in the world (Poullaos 1994, 53). By the 1890's, in the midst of mining and/or land booms and the after-math of expansion of trade unionism, a thriving economy resulted
in an expansion of companies and capital markets (Poullaos 1994, 55). With this new economic environment and the fact that the immigrants of yesteryear began to reach retirement age, the young men of Australia were encouraged to undertake a career in commerce.

However, prosperity was short-lived. Consistent with downturns in the United Kingdom, economically, the Australian colonies fell into depression. As the land boom came to an end so did the careers of prominent politicians and businessmen. Financial losses also saw the end of the prosperity of many British investors. Throughout the economic turmoil, accountants began to strive for greater prominence. However, their bid for social recognition and status was threatened by the perceived role accountants played in the economic woes in the wake of the collapse of the land boom. The idea of a charter looked the ideal way in which the accounting profession could prove its worth (Poullaos 1994, 59).

Australia’s push for professionalisation was influenced by the same factors that pushed both the United States and the United Kingdom into professionalisation. Not only was there a threat to be combated, there was also an internal power struggle between accountants themselves, resulting from the fact that anyone could be an accountant (See Cooper 1994). Australia’s first charter attempt provides clear evidence of an intention to effect professional closure. The desire for a Royal Charter by the Incorporated Institute of Accountants in Victoria
was based on many premises, but the dominant argument was that it would ensure that competent and capable accountants performed services for the public. This characteristic was greatly desired, especially at a time that public confidence in financial institutions was low (Chua and Poullaos 1993, 702).

With accounting in its infancy, its jurisdictional boundaries and duties were somewhat threatened, as they were not officially defined

it would be a mistake to assume that a stable, well-defined ensemble of “accountancy” services or tasks persisted throughout the period under review. There could be, and was, disagreement about what an “accountant” was (Chua and Poullaos 1993, 703).

In addition to the profession’s ill-defined and continually threatened activities, there was a continual struggle and competition for work between the so-called unqualified accountants and members of the accounting associations. The Australian Accounting Association worked towards distinguishing

their members from unqualified accountants not belonging to any association and to define a market for “accountancy” services so as to exclude “non-accountants”. The market for accounting services was in its infancy and the associations had not achieved occupational closure (Chua and Poullaos 1993, 703).

When the accounting association felt the public was questioning its ability, it laid claim to the characteristics of morality and competence. Similarly the catastrophic corporate collapses in Australia during the 1960s necessitated the demonstration of its accounting professions
commitment to serving the public interest and its ability to ensure that such catastrophes never happened again. To this end, the two major professional bodies, ASA and ICAA established the AARF, which was to be the means of providing a solution to all accounting problems. The newly formed AARF became a new obligatory passageway and confirmed the indispensability of accounting professionals to society.

As the twenty-first century dawns, the AARF is once again fighting hard to maintain and re-enforce its created ideal of the necessity of the AARF to adequately protect the public interest. In 1997, Treasury announced plans for a Corporate Law Economic Reform Program (CLERP) which was introduced in order to improve business and company regulation within Australia. One of the key features of the reform program was to make accounting standards more useful for business by establishing an advisory body, the Financial Reporting Council (FRC). To

have broad oversight of the Australian accounting standards setting process. It will report to the Minister and provide advice on the effectiveness of accounting standards. As a result, the accounting standard setting process will become more responsive to the needs of preparers and users of financial statements. (Commonwealth of Australia 1998, 4).

The reforms proposed by CLERP appear to question the abilities of Australian accounting standard setters and cast doubts on the future of the AARF. The ideal within society is being challenged, as it becomes apparent that perhaps the Australian accounting bodies, including the
AARF, are not the only authorities capable of looking after the public interest.

A key role of the FRC will be to ensure that the AASB is committed to, and works towards, the adoption of IASC standards having regard to what is taking place in major capital raising economies (Commonwealth of Australia 1998, 4).

Advocates of the AARF have begun to rally support for an institution whose domineering days could be numbered if the CLERP proposals go ahead and the FRC is formed. In a bid to protect the status quo, various articles and comments have appeared in the official journals of the Australian Society of Certified Practicing Accountants. These articles and comments claim that the loss of the AARF, as a result of the FRC, would be disappointing, particularly since the AARF has been invaluable to the accounting profession:

The AARF has played a central role in the development of the profession in Australia. Its benefits have flowed to all members in the profession, and for a number of reasons is a key factor in establishing the standing of the profession (Addison and Leo 1998, 46).

The foregoing sustains the argument that much of the domination, which the AARF enjoyed over the years, was empowered by the ideal that the research arm of the two professional bodies is the only organisation capable of finding a solution to Australian accounting problems. This ideal had to exist in order for the AARF to be able to move through the translation process of power and enrol dominated actors into the interests of the AARF. As the AARF was a creation of the
two major professional accounting bodies, the ideology that the AARF should deal with the formation of Australian accounting standards extended to the Society and the Institute. It is this ideology that has facilitated the translation process. The existence of this ideology also saw the sociological tools of discourse and isomorphism become useful as a hegemonic environment was created.
CHAPTER 3

MEASUREMENT YESTERDAY AND TODAY: OLD PROBLEMS REVISITED

Cecil Graham: What is a cynic?

Lord Darlington: A man who knows the price of everything and the value of nothing.

Cecil Graham: And a sentimentalist, my dear Darlington, is a man who sees an absurd value in everything and doesn't know the market price of any single thing (Wilde, 1892).

This chapter will demonstrate that the complex issues surrounding measurement today are the same issues that have troubled accountants since the beginning of this century\(^1\). Despite discussions on the inadequacies of historical cost taking place well before Australia experienced double-digit inflation, the effect on accounting practice was minimal. This made the need for a lasting solution all the more important, when Australia, like our overseas counterparts, became entangled in this ongoing debate. The time that has been devoted to the inadequacies of historical cost and the continual pleas to implement an alternate method of asset valuation have been to no avail. The

\(^1\) Whilst criticisms of historical cost can be dated prior to the 1900's, for the purposes of this study the following review will only consider activities undertaken throughout this century.
Australian accounting profession is set to farewell this century in the same way it began, searching for a solution to the measurement debate. Forging the basis for later discussions, this chapter will argue that past attempts to resolve the measurement dilemma have been hindered by the profession's self-serving need to adhere to tradition. The self-serving attitude of the profession can be seen as a handicap that has been detrimental to any attempts made throughout the twentieth century, to solve the problem of measurement made throughout the century.

INTRODUCTION

Despite claims throughout the years, both in Australia and abroad, that historical cost was not an adequate method for measuring assets, it has continued to reign as the most accepted method available to accountants. According to Brief (1976, as cited in Hooper 1997), during the late 1800's, replacement accounting, instead of historical cost, was widely used throughout the railway industry in the United States during a period referred to as the Railway Era. A period when replacement cost accounting was specifically required by the Interstate Commerce Commission (Lee 1983, 27).

The Railway Era was a period when great prosperity experienced by railways was marred by the inappropriate use of replacement cost, resulting in historical cost being favoured as the method for asset
measurement. Replacement cost involved charging the costs of replacing a fixed asset against revenue in order to derive periodic income. However, with the need to attract investor funds into the Railway industry saw the misuse of replacement cost and creative accounting became prominent amongst railway companies (Hooper 1997, 37). In order to inflate profits, depreciation was ignored, which allowed the payment of high dividends, thereby attracting investors. As a result, after several years, many railway companies were unable to renew their fixed assets, bringing to an end the charade, which simultaneously witnessed the demise of many railway companies and greater acceptance of the historical cost principle. It would appear that this abuse of replacement cost accounting gave rise to early acceptance of historical cost.

In direct response to the many collapses experienced in the railway industry, a parliamentary inquiry was held. The findings of this inquiry sanctioned the view that assets should be valued at historical cost less depreciation (Hooper 1997, 37). As the price or cost of an item could not be considered the same as it’s selling price, because in practical life, if I say that the value of a horse is 31 pounds, I am either speaking from the point of view of a buyer, ... or ... from the point of view of a seller...but I cannot mean both, for notoriously (if all conditions remain the same) the buying and selling prices are never identical (Wilde 1892, 80).

One of the first serious criticisms of historical cost in Australia was
voiced during the 1920s by Wunderlich, a businessman turned accountant. Wunderlich's claims came at a time when Europe, which was experiencing double-digit inflation, began to search for an alternate method of asset measurement that would prove fruitful for the prevailing economic conditions. The shortcomings of historical cost had also been iterated in accounting journals in the United States (see Sweeney 1936 and Schmidt 1930), however, it was not until the late 1940s that Australian journals began contributing to the debate. One of the principal writers in this area at the time was Professor Ray Chambers. Who began to reveal in Australian accounting literature a new side to historical cost, focusing on the method's shortcomings, particularly in times of inflation. Perhaps, then, it is not surprising that Australian professional accounting bodies did not consider asset measurement as an important issue until the 1970s when Australia experienced double-digit inflation.

Almost thirty years later, the asset measurement issue has not been resolved. Continued attempts by the Australian Accounting Research Foundation to solve the problem have been to no avail, leaving asset measurement in a state of disarray. The recently released AARF monograph number 10, *Measurement in Financial Accounting*, acknowledges the limitations of historical cost but endorses its continued use. On the other hand individual accounting standards advocate the use of various alternate asset measurement methods.
Further confusion has been added by the public sector's adoption of deprivval value.

**Measurement overseas - A brief overview**

The following discussion is not meant to be an in-depth examination of the measurement debate overseas, but a demonstration that the issue of measurement was important overseas well before the Australian accounting profession became preoccupied with the debate. Furthermore, the following will indicate that the proposal to implement alternate methods was not restricted to the latter part of this century.


**The United States**

Roots of the measurement debate can be traced back well before this century when inflation began to make an appearance on the economic
scene both in the United States and Europe. Debate on replacement cost accounting was evident as early as 1865 in the United States when, shortly after the Civil War, attempts were made to have historical cost substituted by replacement cost for depreciation purposes by government agencies. Whilst much of the early work was undertaken in the United States, the United Kingdom had remained parallel to American developments in respect of asset measurement. That was until 1969 when, for several years, the United Kingdom was said to have fallen somewhat behind (Tweedie and Whittington 1984, 44).

In 1898, just over three decades after the push to introduce replacement cost, a landmark decision relating to the measurement issue was made in the United States Supreme Court. The decision in Smyth V Ames advocated the use of fair value when measuring assets. According to the findings, fair value was defined as the current value of an asset rather than the asset’s historical cost value (Tweedie and Whittington 1984, 17). This decision was not, however, the end of the measurement debate. On the contrary, the 1900’s saw the measurement issue gain momentum to become one of the most debated topics in accounting. Not even a century marred by war could cause this contentious issue to be forgotten, becoming a main focus both before and after both World Wars. Although it was not until the 1930’s that measurement was directly referred to in "any quantity" (Interview with Professor Chambers), work had continued to be undertaken by
prominent members of society, resulting in an influx of various contributions to the issue of measurement.

The first of such works was in 1911 with the publication of *The Purchasing Power of Money* by Irving Fisher. Echoing the need for change, Fisher considered indexation as an alternative to the traditional historical cost method. In comparison, the 1930's saw the publication of what was considered to be one of "the most important works on inflation, published by Henry Sweeney (Tweedie and Whittington 1984, 32). Sweeney’s work showed a preference for general index adjustments for both the income statement and the balance sheet in order to reach a current purchasing power situation. Sweeney's publication went on to influence substantially later work, including, *Accounting Research Study number six, Reporting the Financial Effects of Price–Level Changes*, and current purchasing power proposals made in the United States.

Holding great importance in accounting history today, Sweeney’s publication failed to receive the attention it perhaps should have had at the time of publication. The reason given was that the problem of inflation accounting was superseded by the problem of recession.

With the onset of World War Two, like many other important issues, the topic of inflation accounting and the measurement issue briefly lost momentum but was revived at the end of the war when inflation accounting once again became a priority. Immediately after World War Two, in 1947, concern once again arose that traditional historical
depreciation charges did not represent an adequate measure of the replacement cost of the assets. In response, two prominent corporations in the United States, Du Pont and United States Steel, attempted to rectify this situation by supplying supplementary information (relating to depreciation) reflecting the decline in the purchasing power of money. Although considered useful by some, the Securities and Exchange Commission (SEC) did not accept this fundamental action undertaken by the above-mentioned corporations (Tweedie and Whittington 1984, 38).

It would seem the SEC preferred an accelerated method of depreciation, accepting a later attempt by Chrysler, which accelerated the depreciation of historical cost. Although the same results were ultimately achieved, different methods were used and it was obvious that the regulators preferred that of accelerated depreciation. This obvious disregard of the proposed alternate measurement method was, perhaps, the first real hint of what would be a long-term resistance to the implementation of an alternate method of measurement (Tweedie and Whittington 1984, 38).

In spite of the stance of the SEC, supplementary information, prepared using methods other than historical cost, was gaining some acceptance. Whilst earlier condemning any adjustments being made, the American Institute of Accountants, in its research bulletin issued in 1948, gave general acceptance to the experimental use of supplementary
information (Tweedie and Whittington 1984, 38). With the issue slowly gaining substance, a Study Group on Business Income was formed. The aim of the group was to examine conflicting views on the adequacy of the historical cost method and to consider what alternative method, if any, should be employed. The Study Group's conclusion was a cautiously worded response that left open the path to Current Purchasing Power. Mindfully, the Study Group spoke about the need for accounting practice to incorporate financial information other than that prepared on a historical cost basis, as it was argued that, methods could, and should, be developed whereby the framework of accounting would be expanded so that the results of activities, measured in units of equal purchasing power, and the effects of changes in value of the monetary unit would be reflected separately in an integrated presentation which would also produce statements of financial position more broadly meaningful than the orthodox balance sheet of today (Study Group on Business Income 1952, 105).

Encouraging corporations to implement alternate methods whilst also advocating the need to retain financial statements prepared according to historical cost, the Study Group argued that
for the present, it may well be that primary statements of income should continue to be made on bases now commonly accepted. But corporations whose ownership is widely distributed should be encouraged to furnish information that will facilitate the determination of income measured in units of approximately equal purchasing power, and to provide such information wherever it is practicable to do so part of the material upon which the independent accountant expresses his opinion (Study Group on Business Income 1952, 105).

A publication scolded

After a sharp rise in inflation during the 1940s, relative stability in the rate of inflation during the 1950s saw a casual approach taken towards solving the dilemma of accounting for inflation. Whilst some contributions were made from other sources, the majority of work was initiated and undertaken by the American Accounting Association. The American Accounting Association (AAA) identified certain limitations of historical cost and the need for corporations to prepare supplementary financial statements. Later the AAA further voiced its acceptance of adjusting financial information for specific price changes (Tweedie and Whittington 1984).

The continued focus on this controversial dilemma had, through the years, resulted in the development and publication of several accounting research studies. However the American Accounting
Association, despite its claim of urgency to solve the problem, met most of the proposals put forward with disapproval. None was more criticised than the study by Sprouse and Moonitz, Accounting Research Study number three, *A Tentative Set of Broad Accounting Principles for Business Enterprises*, followed by Accounting Research Study number six in 1963 entitled, *Reporting the Financial Effects of Price-Level Changes*.

Labeled as "courageous", the study advocated the use of Current Value Accounting, indicating clearly the inconsistency that arose with the use of the traditional historical cost method. The greatest fear of both Sprouse and Moonitz (1962) was the threat that the credibility of accounting information would be sacrificed for unjust reasons. Claiming that steps had to be taken to ensure that this detrimental situation was avoided, the study argued that

> unless accountants are forearmed, they could slip into acceptance of accounting “principles” which are not independent expressions of the results of accounting considerations but instead simply validate the policies established in the field of collective bargaining (Sprouse and Moonitz 1962, 10).

In measuring assets, Sprouse and Moonitz argued that attention had to be directed towards the future services that would arise from the asset's use. According to both authors, the asset's future service plays a vital role in valuing assets as it is the service which the asset will provide in the future which justifies its existence in the first place.
The study put forward three necessary steps that had to be followed in order to adequately value an asset:

- To determine the existence of a future service.
- To determine the quantity of the future service that existed.
- To choose a method that would be used to value the quantity of the future service.

According to the study, the methods available to value the future service included

- Traditional acquisition cost (historical cost).
- Replacement cost.
- Anticipated selling price.

In addition to the above, the study dealt individually with the measurement of inventories and fixed assets. Advocating the use of net realisable value for inventories, due to their stable nature and replacement cost for the valuation of fixed assets.

The study came under attack from many quarters. The Accounting Principles Board (APB) one of the strongest critics, claimed that while the study was a valuable contribution to accounting thought it was too radically different from present generally accepted accounting principles for acceptance at [that] point in time (Sprouse and Moonitz 1962).
According to the APB, there was a need to ensure that the existing inconsistencies in accounting practices were eliminated or at the very least narrowed. The APB acknowledged that the strongest source of these inconsistencies stemmed from generally accepted accounting principles that were to guide accounting practice and ensure that accurate information was contained in the financial reports. Furthermore, the APB acknowledged that the environment in which the accounting principles had been established had changed substantially, readily endorsing the need to "experiment" with accounting principles in order to have them adapt to the changing environment. Ironically, when change was proposed, as in the case of the Sprouse and Moonitz study, the proposals were rejected on the grounds of being too radically different.

Whilst the Accounting Principles Board admitted that it was unrealistic to ignore changes in the value of the dollar, it made no conclusion as to whether or not financial statements should be adjusted for such change. In addition, the Board was not prepared to have others ignite discussion on the topic, as had Sprouse and Moonitz (Wells 1978).

Opposition to the study grew as critics joined the APB in denouncing the work of Sprouse and Moonitz, claiming that the work would serve no useful purpose except to hinder the development of broad principles in accounting. Supporters of the study claimed that some critics deliberately rejected the Sprouse and Moonitz study in order to preserve
the profession's status quo (Sprouse and Moonitz 1962).

Barely a year after the publication of the Sprouse and Moonitz study, a second study was issued, entitled *Accounting Research Study number six, Reporting the financial effects of price-level changes*. Complementing previous work, this study probed deeper into the inflation accounting problem. Advocating the preparation of supplementary financial statements in accordance with the constant purchasing power of money, the study, like that of Sprouse and Moonitz, advocated adjustments according to changes in the general price index (Tweedie and Whittington 1984).

Perhaps the greatest contribution that *Reporting the financial effects of price-level changes* made was to make known the actions that various corporations had undertaken with regard to price level changes. Many organisations were found to have, in some way, altered not necessarily the primary financial statements but the information given to users as a whole, so as to deal with the effect of price-level changes. Although the methods had varied, they all had one common objective, to account adequately for movements in the general level of prices, and accurately measure vital information (Tweedie and Whittington 1984).

In 1969 the principles put forward in Accounting Research Study number six were advocated by the Accounting Principles Board, with the publication of APB3 *Financial Statements Restated for General Price-
**Level Changes.** Thus a supplementary statement adjusted by a general price level index was recommended. Furthermore, the publication recommended that gain or loss on monetary items also be reported.

Whilst continuous work was undertaken in the United States, and elsewhere, it is evident that similar or identical recommendations were made, having the effect of adding very little to the debate on measurement (Tweedie and Whittington 1984, 43). In other words, in less than ten years, three separate studies were undertaken with the two latter studies coming to similar conclusions as the first. The APB endorsed the latter studies (even though it extensively criticised and rejected the first study) adding little or nothing to the measurement debate.

**The United Kingdom**

Looking at the history of both the United Kingdom and the United States, several similarities become evident. Both the United States and the United Kingdom had experienced double-digit inflation immediately after World War Two, igniting debate about how to resolve the problem of inflation accounting. Secondly, the accounting literature in both countries had, at the time, discussed alternate methods of asset measurement such as replacement cost. An interesting similarity between the two countries was the apparent rejection of any proposals that advocated methods other than historical cost.
After the cessation of World War Two, inflation in the United Kingdom reached an all-time high. Consequently, the effects of inflation were felt throughout the United Kingdom and the adequacy of the historical cost method was brought into question. In response to the negativity that surrounded the profession, the Institute of Chartered Accountants in England and Wales published in 1949, Recommendations on Accounting Principles number twelve, *Rising Price Levels in Relation To Accounts*. In this formal response, the Institute blatantly rejected any changes to the accepted principle of historical cost. By openly supporting the continued use of historical cost, the accounting body rejected any prior suggestions advocating alternate methods of inflation accounting.

As the inflation rate fell to more acceptable levels, the Institute's intolerant response was not questioned and proved sufficient to the business community. The effects of inflation on financial statements were still seen as a problem, but, in the absence of high level inflation, such effects were no longer considered to be of grave importance, particularly since the practitioner was not affected (Baxter 1977, 19). That was, until the early 1950s, when once again inflation rose to substantially high levels, initiating renewed calls for the implementation of replacement cost.

In response to these calls, a number of publications, including one issued by the Institute of Chartered Accountants in England and Wales
(ICAEW), proposed the use of replacement cost. Unlike the 1949 ICAEW publication, Recommendations on Accounting Principles, number fifteen, *Accounting In Relation to changes in the Purchasing Power of Money*, acknowledged the need to implement inflationary accounting methods for taxation purposes.

The recommendations of Accounting Principles number fifteen also made reference to the limitations of financial statements prepared in accordance with historical cost. The study acknowledged that financial statements were prepared based on a monetary unit that was not a stable unit of measure consequently

> the results shown by accounts prepared on the basis of historical cost are not a measure of increase or decrease in wealth in terms of purchasing power; nor do the results necessarily represent the amount which can prudently be regarded as available for distribution, having regard to the financial requirements of the business ([ICAEW, Recommendations on Accounting Principles number 15, 1961, 8]).

In comparison to previous findings the Institute declared that the problem could be overcome or

> reduced by the adoption of new principles, capable of practical application to all kinds of businesses in a manner which would be independent of personal opinion to a degree comparable with the existing principles based on historical cost ([ICAEW, Recommendations on Accounting Principles number 15, 1961, 2]).

The new principles referred to were
The replacement cost method of dealing with fixed assets

The writing-up of fixed assets

The current value method of dealing with stock-in-trade and depreciation of fixed assets

The index method of adjusting accounts to reflect changes in the purchasing power of money (ICAEW, Recommendations on Accounting Principles number 15, 1961, 2).

However, in spite of the acknowledged limitations of historical cost, it was recognised that the alternate methods proposed appear to have serious defects and their logical application would raise social and economic issues going far beyond the realm of accountancy. The Council is therefore unable to regard any of the suggestions so far made as being acceptable alternatives to the existing accounting principles based on historical cost (ICAEW, Recommendations on Accounting Principles number 15, 1961, 9).

Accordingly the study concluded that until a suitable alternate method was found, historical cost should continue to be utilised.

In 1968, a year before the publication of APB 3, the United Kingdom issued Accounting for Stewardship in a Period of Inflation. Inspired by work conducted in the United States, the study was written by the then President of the ICAEW, Parker. Advocating the use of supplementary statements prepared using Current Purchasing Power (CPP)
adjustments, the publication moved towards the possibility that supplementary statements may become as accepted as conventional statements. This 1968 document was to pave the way for the inflation accounting debate and support for CPP within the United Kingdom.

In 1971, a paper entitled *Inflation and Accounts*, was prepared by the Technical Department of the English Institute. Like the 1968 publication, *Inflation and Accounts* also advocated the use of supplementary statements prepared on the basis of CPP.

The proposed system would adapt "conventional published accounts" to reflect the changes in the purchasing power of money (Tweedie and Whittington 1984, 48).

Proving to be more than a discussion paper, *Inflation and Accounts* provided the basis for the development of an exposure draft referred to as ED 8 which was issued in January of 1973, ED 8 also advocated the use of CPP. The provisions of ED 8 required listed companies to produce supplementary financial statements that would still be based on historical cost but adjusted by CPP. Obviously dissatisfied with the move towards CPP a week before the exposure period of ED 8 was to end, the government initiated an independent inquiry, subsequently giving rise to the Sandilands Committee (Tweedie and Whittington 1984, 50). A move which was not expected by the profession.
the government, which had been fully consulted about the CPP proposals whilst they were being formulated, suddenly decided to pull the rug out from under the feet of the Accounting Standards Steering Committee (Stamp 1975, 411).

Although it is unclear why this step was taken, one of the reasons offered for this move (Cooper 1995) was that government realised that CPP might have an adverse impact on the perceived outcomes of their public policies. According to Stamp the government had become alarmed at the prospect of accountants throughout the country making detailed measurements of the impact of inflation. The government feared that this would upset their deliberately balanced prices and incomes policy (1977, D12).

Whittington also provides evidence of "representations from industry" as a possible reason for the government's actions.

of the companies who commented on ED 8, only one-third supported CPP and the remaining two-thirds were divided between replacement cost accounting and other methods and there were indications that the government had been lobbied by a number of companies against the introduction of a CPP standard (1981, 71, cited from personal correspondence with Douglas Morpeth).

Rejecting the proposal of CPP, the Sandilands committee favoured a current cost method that would clearly disclose the effects of price level changes. According to the Sandilands committee the only viable inflation accounting method would be a
system based on the principles of value accounting, which shows the specific effect of inflation on individual companies. We recommend that a system to be known as current cost accounting should be developed. Conventional historic cost accounting practices have already been modified by the introduction of elements of value accounting, and current cost accounting is a further systematic development along these lines (Sandilands 1975, 3).

Furthermore the committee recommended that a Steering Group should be set up to supervise the necessary detailed work in preparation for the introduction of Current Cost Accounting. An initial standard of Current Cost Accounting should be made mandatory for listed companies, large unlisted companies and nationalised industries ... if this proves feasible [the standard] should progressively be extended to apply to other companies (Sandilands 1975, 3).

Effectively, the profession was forced to abandon its preferred method of CPP in order to develop an inflation accounting standard based on CCA.

The sudden decision in the United Kingdom to reject CPP and move towards implementing Current Cost Accounting had far reaching effects, including influencing the path taken by the Australian accounting profession. As will be demonstrated in later chapters, Australia followed the lead of the United Kingdom moving towards CPP only to abandon the proposal in favour of Current Cost Accounting.

Furthermore, as in the United Kingdom, when Australia finally moved towards implementing an alternate method of asset measurement, the business community chose not to accept the proposals. The proposal in
question was *Statement of Accounting Practice Number One* (SAP 1). Published in 1984, SAP 1 was produced for those organisations that wished to prepare financial reports based on CCA. Although SAP 1 still forms part of the Australian accounting standards, it has failed to be accepted by the wider business community. Thus there are instances in both Australia and abroad when change has been requested only to be ignored when it is finally implemented.

**Accepting Historical Cost in Australia: A Convenience Rather Than Logic**

Australia's acceptance of historical cost is unexceptional when compared with our overseas counterparts. Like abroad, Australia continued to utilise the orthodox method giving little thought to the perceived inadequacies of historical cost or the critics who argued against its use. It was not until Australia experienced high rates of inflation in the mid 1970s that focus substantially turned towards the possibility of implementing an alternate measurement method to historical cost. Yet despite years trying to find a suitable alternate method, historical cost remains the most generally accepted method of asset valuation.

In Australia the general acceptance of historical cost can be traced to a perception that accounting should be simple and convenient. This requirement of simplicity was evident early this century when it was
declared that the following should be kept in mind when preparing accounts

(a) completeness and accuracy (both in principal and detail); (b) simplicity and (c) convenience; thus affording a maximum of record within a minimum of labour, and the main difficulty in compounding this prescription will be found in reconciling completeness with simplicity and convenience (Public Accountant 1905, 90).

This need for simplicity and convenience when preparing financial information grew in importance to become a significant motive for the irrefutable acceptance of historical cost. Historical cost was seen to give a definite thing, a matter of available knowledge independent of external fluctuations, and it involves no extra work of entry - that is, the natural entity is that on the cost basis (Cole 1921, 319).

Whilst historical cost was the most accepted and commonly used measurement method, there is evidence indicating that calls were made during the earlier part of this century for the use of market values rather than historical cost. Land and income tax law was one example which, after modification, concluded that the valuing of land could best be determined on the basis of the amount it would sell for under reasonable circumstances (Public Accountant 1905b, 13). The use of market values was not restricted to land and income tax law, encompassing the valuation of certain categories of assets as well.

A further example was the differentiation of asset valuation based on whether or not the assets were considered to be fixed or floating.
Fixed assets were valued at cost less any depreciation, whilst floating assets were valued at actual cost or market value (Public Accountant 1905, 95). This practice maintained the characteristics of simplicity and convenience in accounts as any fluctuation in the value of fixed assets was ignored as it was not considered necessary to charge against profit and loss provision for fluctuation in values of fixed assets, for there is no necessary connection between the earning capacity of assets and their value in the books of account. So long, therefore, as the proper efficiency of fixed assets is maintained, profit and loss account has fulfilled its obligation in that respect (Public Accountant 1906, 30).

The possible downfalls associated with overlooking important issues such as fluctuations in the value of assets had, by 1910, become a critical issue for auditors in Australia. They argued that the complexities of asset valuation hindered the ability of auditors to fulfil their duties appropriately. Arguing that they were unable to vouch for the correctness of financial statements if there were assets that could not be valued with certainty due to the use of historical cost (Public Accountant 1911, 10).

Auditors argued that they should not be held responsible if an audit concluded that assets were valued appropriately, only to be later determined that they were in fact overstated. The stance of auditors was justified on the claim that it was inappropriate for auditors to insist on a revaluation by outside experts as corporations did not desire to
disclose all information to the public. Claiming that too much disclosure could lead to great embarrassment, and in certain limited liability companies to serious consequences, particularly if the value of the stocks of raw material were known, as the sources of supply in certain commodities are limited and the market is in the hands of a few people (Public Accountant 1913, 10).

Financial statements, particularly the balance sheet, were not considered to be a report that would fully disclose all information in relation to corporations' assets. At the time, it was commonly accepted that the balance sheet did in no way show or purport to show, what some investors imagine - namely, that all the assets are capable of being converted into cash and will realise the balance sheet figures (Public Accountant 1911, 14).

This tendency towards secrecy rather than disclosure coupled with the need to keep account keeping simple and convenient helped to assist the general acceptance of historical cost during the earlier part of this century.

**The Voice of Truth - The Beginning of a Seemingly Endless Debate**

As the years proceeded, the issue of whether or not historical cost was adequate to meet the demands of business intensified. Like today, many spoke about the possibility of utilising alternate accounting methods for asset valuation, with some even likening the value of assets to the service it will render in the future (The Incorporated
Accountants Student Society 1918, 19). This demonstrates the similarity that exists between the thoughts of yesteryear and the present day definition of assets found in Statement of Accounting Concept number Four (SAC 4) *Definition and Recognition of the Elements of Financial Statements*.

Although hints of dissatisfaction with the accepted method of asset valuation were evident, it was not until 1928 that the strongest criticism against accountants and historical cost was voiced. The critic responsible for openly criticising accountants and their use of historical cost was Dr Otto Wunderlich. A medical practitioner from London, Wunderlich came to Australia in 1900 to visit his two brothers who, at the time, were well established in their own pressed metal business (Walker 1971, 64). Impressed by what he saw, Wunderlich decided to become involved with the business, relinquishing his responsibilities in England to join his brothers in Australia.

With a healthy business sense, Wunderlich soon became involved in the administration and organisation of the business. Soon the overall efficiency of his brothers' business improved as Wunderlich made substantial changes including the
establishing [of] an improved costing system; he standardised manufacture; introduced improved methods of selling, deputed many responsibilities that had hitherto devalued on the principles. His efforts resulted in exact prime costing, greater economy in manufacture, a recognised selling scheme and above all, relief to the principles, without impairing the successful conduct of the business; on the contrary, making it more thorough than before. The principles established by Dr. Wunderlich have been the basis on which all subsequent expansion has been made possible (Walker 1971, 64).

Wunderlich soon became accustomed to running a business, but what he was not prepared for was some of the accounting practices used to keep accounts, namely the use of historical cost when measuring the assets of a business.

To Wunderlich, the historical cost method was illogical and was most certainly not based on common sense because rather than taking into account changing prices, the accountant based the issue of asset measurement on the incorrect assumption that assets always represent what they cost. Wunderlich argued that such an assumption could not be further from the truth (Wunderlich 1928, 32). To assume that the value of an asset was not a variable factor remaining constant at cost was said by Wunderlich to be illogical, particularly to the businessman for whom the

the only thing that counts is their present value, because no business can be properly conducted on any other issue. There is no transaction in life in which the question of what a thing costs transcends that of what it is worth (Wunderlich 1928, 18).
Wunderlich openly condemned the use of historical cost claiming that such illogical practice was a direct result of the principles which accountants were required to follow when keeping accounts. These principles, or special tenets as often referred to, required stock and other assets to be valued using the cost approach only. Any other method of asset valuation was opposed despite claims being made by businessmen that there was a growing need to disclose the current values of assets in the accounts. To some, a failure to recognise changes in the value of assets could have a detrimental effect on business resulting in poor management decisions, thus requiring figures which represent values to be selected with utmost care...a business may at any moment find itself in a fool’s paradise, believing that a profit has been made, when as a matter of fact it had merely been giving away to customers goods and assets that at one time had been cheaply bought (Wunderlich 1928, 39).

Wunderlich found it absurd that accountants did not seem to adjust to change in a way which would benefit business, particularly since accountants were considered to be the "handmaidens" of business. According to Wunderlich, changes in the business environment should be accompanied by appropriate changes in accounting practice so that old practice gave way to new improved methods developed to meet changes in the business environment (Wunderlich 1928, 9).

Wunderlich attributed the unquestioning acceptance, by accountants,
of these special tenets on the environment in which the accountant was trained. According to Wunderlich the accountant was brought up in an atmosphere quite different from the businessman. The accountant is not taught that accounts should be stated in a form such as will [bring] maximum utility to the business; but his training impels him, first and foremost, to conform to the traditions that have grown up in the craft of which he is a representative (Wunderlich 1928, 12).

He concluded that certain accounting practices were followed not to serve the interest of the businessman but rather to comply with the special tenets of accounting. Wunderlich claimed this priority was instilled from an early stage allowing the accountancy profession [to be] a closed corporation. To become a certified accountant it is necessary to acquire a certificate of proficiency, which can be obtained only by passing the examination of some Accountancy institute. ... This explains the extraordinary unanimity with which the special tenets of accountancy are accepted throughout the profession; and unless the businessman himself goes deeply into the theory and practice of accountancy, he finds it quite impossible to break through the traditional atmosphere in which his accountancy staff has grown up (Wunderlich 1928, 12).

Whilst the historical cost principle seemed illogical and not in the best interest of the businessman, the justification for its use was based on the need to protect not only the business but also the auditor. Understating a corporation's assets was considered far more appropriate than overstating them, as the auditor was liable to replace
the full amount of any monies wrongfully dispersed as a result of assets being overstated. With this becoming public knowledge, claims were made that financial statements did not accurately portray the position of the organisation. It was argued that the financial reports were prepared not to benefit the users of financial information but to protect the auditor and those in charge of preparing the financial statements. Following the special tenets of accountancy ... prevent a too sanguine view of the situation from being taken, but from the point of view of the interests of the business, they bring about a statement of accounting entirely inconsistent with what the businessman regards as the true position. It is difficult to see how accountants can be correct when the principles on which they are based are unsound (Wunderlich 1928, 14).

Wunderlich's views towards the historical cost method led him to conclude that the use of replacement prices would be far more beneficial to business than the orthodox method. Replacement cost focused on replacement price which was the difference between replacement values, the value of the goods to the business, and selling values, being the value to the consumer (Wunderlich 1928, 50). According to Wunderlich, the replacement cost of an asset would give a more accurate result than historical cost.

Wunderlich and the criticisms that he voiced were not well received at the time (refer to Walker 1971), being labeled as absurd and ill researched. Yet the effect of Wunderlich's words were immense. It was
Wunderlich and his open critique of accounting practice that had, to a large extent, initiated the inflation accounting debate and brought much needed attention to the inadequacies of this generally accepted method.

**Criticism Continued To Heighten as the Inflation Debate Gained Momentum.**

The 1930's proved to be a difficult time for accountants both in Australia and abroad as accountancy was held responsible by many for the 1929 Stock Market Crash and the Great Depression that followed. With such large-scale disapproval to contend with, the Australian accounting profession worked hard to ensure that any domestic critics were quickly silenced.

Almost immediately, the profession in Australia began to declare its indispensability to the business community. Through the use of discourse, the profession reiterated the importance of the duties that the accountant had to fulfil. The professional accounting bodies argued that only the trained accountant possessed the necessary knowledge of accounting principles to successfully undertake accounting duties (Commonwealth Institute of Accountants 1933, 7). Unfortunately for the profession, its self-serving actions failed to keep criticism at bay, which began to intensify by the late 1930s. With Wunderlich's sentiments echoed, financial statements came under close scrutiny, as did certain accounting practices including practices that many believed
were the reason behind the extensive lack of uniformity in financial reporting.

In direct response, the 1936 Companies Act began to reflect public concern as requirements of the Act placed greater emphasis on how asset values had been determined. Therefore, balance sheets were to distinguish between the fixed and floating assets of a corporation and clearly disclose how the value of the assets had been ascertained (Commonwealth Institute of Accountants 1936, 26). This move demonstrated the impact that unwanted criticism could have on the accounting profession. In other words, the profession had failed to take action even though almost twenty years prior to the passing of the Companies Act, calls had been made for the disclosure of valuation methods used for stock in trade (Journal of Commerce 1910, 122). Instead, the government took the initiative.

Following the enactment of the 1936 Companies Act, the profession appears to have put more focus on the issue of asset valuation. For example, prior to 1936 it was not uncommon for examination questions to fail to disclose how an asset was valued. In subsequent years, it became common for examination questions to state whether the asset had been valued at cost or valuation (Archive File 164, 1930-1938).
The profession's justification for following inadequate accounting practice.

Perhaps the accountant may inadvertently overlook the fact that it is illogical to treat items which mean different things as if they were the same in essential character; but he can hardly excuse failure to make reference to the effects of price-level changes by claiming inadvertence. The matter is right under his nose, every day (Chambers 1952, 16).

As the years came and went, traditional accounting practice continued to be challenged. By the early 1940s, the business community no longer thought it satisfactory to accept accounting methods simply because they were based on accounting principles. More and more accounting practitioners began voicing criticism of historical cost, claiming that the method was outdated thus failing to provide a true and fair view of an entity's position. Some academics also spoke against historical cost, claiming the method was misleading, particularly when

the old rule, "cost or market, whichever is lower", permits in some cases true conditions to be ignored and may inject into the balance sheet a false and misleading element ... while placing the profit and loss in the period when realized, may cause the balance sheet to present an entirely inadequate and even misleading story as the basis for credit (Fitzgerald 1949, 8).

A perception was emerging of the need to justify the use of various accounting methods based on logic rather than mere acceptance and tradition. At the same time, the necessity for uniformity in accounting
became paramount if certain accounting principles were to be re-stated in a workable and logical manner (Fitzgerald 1946, 1). Suddenly, uniformity was seen to be the answer to making financial information more useful. According to public consensus, the duty of ensuring that uniformity existed rested with the accountant as it was with the accountant that the testing of the theories, the measuring of the effects of legislation, comes back to the accountant the man who deals with the individual undertaking, small or large, the man who records the work and the wealth of men and women. If the accountant is to perform his duty, not only to his immediate client or superior officer but to the community at large, his records must not only be as truthful as possible but must tell the truth - an ideal which demands simplicity and, as a basis for simplicity, uniformity in the sense in which I have tried to put it before you (Ross 1946, 17).

One of the first accounting principles that many considered imperative to change was that of historical cost. Relying on the lower of cost or market rule more often than not resulted in the cost price of an asset being chosen. Despite the increasing awareness that historical cost was not appropriate, its use was frequently justified on the Doctrine of Conservatism (Ross 1946, 11). This justification, according to Fitzgerald (1949, 5), resulted from the Doctrine of Conservatism being viewed as the rule rather than the exception. Recognising this, it was deemed necessary to
approach the problem of stock valuations with the knowledge that conservatism has exercised a profound influence, for good or ill, on well-established practices. But respect for tradition need not and should not lead us to ignore the objections to conservatism on grounds both of theory and practical effect (Fitzgerald 1949, 6).

Endorsed by the 1939 Companies Act, the Doctrine of Conservatism arose at a time when auditors were held liable for any misfortune that may have resulted from overstating a corporation's assets (Fitzgerald 1948, 4). According to the Doctrine of Conservatism, assets were better understated than overstated, eliminating possible repercussions that could arise if decisions were made based on overstated assets, an argument that was often refuted as it was claimed that

the common belief that less mischief is done by understatement than by overstatement is, in the hands of honest men, probably true; but with dishonest men understatement may serve their turn as well as overstatement (Fitzgerald 1949, 6).

Despite the criticisms that had arisen against historical cost and the basis for its justification, overwhelming support for its use still existed. In a study conducted by Fitzgerald (1949, 11), the financial statements of forty Australian corporations were examined. The study found that only two of the corporations deemed it necessary to disclose the method of valuation utilised, with the remainder allowing users to presume the use of historical cost.
THE CALL FOR ALTERNATE MEASUREMENT METHODS IN AUSTRALIA

As the appeal of conservatism began to decline amongst the users and preparers of financial statements, the possible implementation of alternate methods of asset valuation became enticing. The accounting profession was called upon to undertake much needed research, in order to standardise accounting practice and bring uniformity to accounting. At the time, it was suggested that uniformity could be implemented through the use of replacement cost or the preparation of supplementary financial statements prepared on a current value basis. In any event, more relevant and reliable information was sought (Fitzgerald 1946, 7).

By the late 1940s, criticism of historical cost continued to dominate the activities of accounting practice. Support for the claims of Wunderlich, which had once been considered to be illogical and ill researched, grew to immense proportions (Walker 1971). Slowly a transformation in the business community's ideology towards financial statements and the role of accounting in society was evident. No longer was the security of auditors considered a priority, rather the need to disclose accurate accounting information was seen as the essential objective of accounting information.

This change in ideology was assisted by the recruitment of
prominent academics to the historical cost affray. One of the most vocal academics to participate in the inflation accounting debate was Professor Chambers who would continue to devote much of his academic career to the measurement debate. In his campaign to better accounting practice, Professor Chambers, who had collaborated extensively with overseas colleagues, began to publish widely on the need for change. In doing so, Professor Chambers challenged the leaders of the accounting profession by depicting a side of historical cost and the justifications for its use that perhaps some did not want disclosed.

The first of many articles written by Professor Chambers on the problems of historical cost appeared in the 1949 edition of the *Australian Accountant* (Chambers 1949, 313). The article argued that the general acceptance of historical cost should not hinder the examination of alternate methods. Professor Chambers' intention in the paper was to present alternative views that were not widely accepted by accountants (Chambers 1949, 313). Making it clear to readers that whilst financial statements were regarded as "reports of stewardship intended to inform and advise", many shareholders and investors [were] being led up the garden path; ... being fooled by the talk of disclosure to rely on statements which may [have given] an egregiously incorrect view of the state of their companies (Chambers 1949, 315).

As the end of the 1940's approached, the controversy plaguing
historical cost became a threat to the stability and credibility of the accounting profession. Professor Chambers had argued that, although accountants were

constrained in practice to follow one of the accepted methods by reason of external influences, we should not therefore abstain from examining the advantages and deficiencies of other methods (Chambers 1949, 313).

With accounting literature immersed in the seemingly endless debate of asset valuation, the profession's leaders had to respond in order to preserve the profession's status.

To counter claims that the present value of assets should be disclosed, the profession's principal leaders began to search for justifications other than conservatism to defend the use of historical cost. In moving blame away from the accepted accounting principle, it was declared that there was a general misunderstanding as to the overall objective of a balance sheet. Contrary to popular opinion, a balance sheet was not prepared in order to disclose the worth of a company, as was misconstrued by many. The balance sheet was

simply a statement of the ledger balances which remain open after the process of matching costs with income has been completed by preparation of a profit and loss account (Fitzgerald 1948, 16).

Attempts to justify the use of historical cost were often met with skepticism. For example, critics claimed that too much emphasis was placed on justifying historical cost, rather than rectifying the problem.
This, in turn, did little to ensure the stewardship of financial statements.

As the call for alternative methods intensified, critics of historical cost began to focus on exposing the misleading arguments that were used to defend historical cost. Professor Chambers declared at the time that resistance to change is always strong and is frequently bolstered by quite irrational "argument". While ever nebulous argument and thinly veiled error befog the discussion of business realities, accounting will make little progress. The statement of the case for historical cost [was at times] ... full of illogical or untrue statements and implications that it seemed important to drag them out, give them full publicity, reveal their lack of substance. That was my aim (Chambers 1950, 70).

A critique of the reasons as to why historical cost advocates believed change should be discouraged only served to substantiate the above argument made by Professor Chambers. The following examples of objections to the implementation of inflation accounting illustrate the nature of the debate.

**Objectivity**

Historical cost advocates claimed that using cost to value an asset provided users of financial statements with objective information, which could be verified with independent documentation. To move to current values would replace objectivity with unwanted subjectivity and calls for judgement. This claim was naturally challenged by Professor Chambers
who believed that greater subjectivity existed with the use of historical cost, for

if one wishes objectivity, then a current market price is even more objective than a conventionally computed depreciation provision, for one can go out into the market and find current prices even though there is no intention to purchase (Chambers 1952, 19).

**Difficulty in forecasting replacement cost**

A second reason often used was the associated difficulty that would be encountered in the forecasting of replacement cost. Once again this argument was challenged by Professor Chambers, likening the difficulty of such forecasts to the conversion of foreign transactions to domestic currency. Professor Chambers went on to say that, whilst some claimed the use of replacement cost did little to alter the overall financial statements, it did prevent fictitious amounts being distributed and working capital being eroded (Chambers 1952, 20).

**Damaging the prestige of the accounting profession**

Perhaps the most controversial reason given for objecting to the proposed change was the fear of damaging the profession's prestige. This objection can be seen as an early indication that self-interest has long been a priority to some within the accounting profession. Professor Chambers declared that the profession had two options: (i) To serve the profession's own economic self-interest and continue to prepare misleading financial statements, or (ii) to sacrifice the profession's
short-term prestige in favour of fulfilling the role of stewardship. It was up to the accountant to "choose between alternative values or ends". According to Professor Chambers, this was a relatively simple decision given that the profession, being a body of persons having as one of the principles "service to the Community" should be concerned more with efficient service than with prestige. If we refuse to alter our technique merely because to do so would damage what prestige we now have, we sacrifice whatever we have of social conscience (Chambers 1952, 20).

Change was unwarranted

Advocates of historical cost also argued that the drastic change proposed was unwarranted given the temporary nature of inflation. The proposition to ignore the effects of inflation based on the assumption that prices will return to previous levels in the future was dismissed by Professor Chambers. To ignore the effects of inflation was considered to be impractical, particularly when considering that decision-making in business matters is a constant process; past decisions are under constant review in the light of current circumstances. No manager, or investor, or other interested party can find useful accounts which reflect the prevailing economic circumstances only once every twenty years (Chambers 1952, 21).

Difficulty in selecting a satisfactory measure of the extent of inflation

The favourite "hobby-horse", as referred to by Professor
Chambers, of historical cost advocates was the ill-argued belief that difficulty would be encountered when selecting an alternate method to historical cost. This objection was based on the assertion that no one alternate method would be appropriate to all business types. Whilst Professor Chambers conceded that each alternate method possessed some limitations, he argued that any method would no doubt be more appropriate than historical cost.

We shall admit that any index may be less accurate than we could hope for as an ideal; but we may also claim that any index will make the accounts a better approximation to current economic realities than conventional accounts (Chambers 1952, 21).

In his quest for change, Professor Chambers strove to halt what he perceived to be misleading propaganda that was being filtered through the business community. Accounting discourse had allowed the dissemination of what Chambers and others saw as false illusions created to justify the continued use of historical cost. Professor Chambers, along with other well respected academics and practitioners, maintained that such actions would be detrimental to the profession and society. If accountants were to fulfil the function of stewardship, justification for outdated practice could not be made on falsity or on the strains of tradition. Professor Chambers called upon accountants and the business community not to be
fooled by what is generally recognised; in fact, what is generally recognised might well be an object of our suspicion, for general recognition suggests something which appeals to an emotional or non-rational element in our character, rather than something appealing to our reason (Chambers 1950, 69).

The worth of a profession was not ascertained on its ability to uphold tradition but on its unequivocal strength to adapt, auspiciously, to change (Chambers 1950, 69). The apparent failure of the profession to change and address the issue of asset measurement brought into question the profession's rights to professional status. As Irish (1950, 16) declared of his own profession

if we ignore the challenge we forfeit our right to be a profession, we disclaim that accounting is a science, and we have no right to an honorable place in the business structure (Irish 1950, 16).

**A PROFESSION CALLED TO ANSWER**

After decades of criticism, the accounting profession was called upon to cease the acceptance of illogical doctrines and implement change to the practice of asset valuation (Yorston 1951, 3). The business community had made its feelings clear, urging the profession to realise that the continual
disregard of changing money values [was] misleading those concerned and [was] a contributing factor in accentuating booms and depressions. As far as individual businesses [was] concerned, [the] disregard ha[d] already very seriously undermined the financial structure of many concerns...the profession would fail in its duty if it did not do everything in its power to obtain some recognition (Editorial 1955, 427).

The business community looked to the accountancy profession to provide it with a solution that would solve the plaguing problem of asset measurement.

The accountancy profession is in the key position in this matter. Business is looking to the accountancy profession to handle this problem. Government circles are not likely to move while a majority of the accountancy profession or the official spokesmen for the profession say there is no need for a move (Editorial 1955, 428).

Despite such pleas, the problem of asset measurement persisted. Nothing had the effect of reducing the importance of asset valuation. Even amidst the chaos of the corporate collapses during the 1960's, focus would return to the issue of asset measurement. The continued attention on historical cost in the accounting journals coupled with the devastation of the corporate collapses resulted in an outcry for improved financial accounting techniques. The late 1960s onwards witnessed the mobilization of the accounting profession, as there was an attempt to salvage its professional status.

Forming the foundation for the remainder of this study, the overall aim of this chapter was not to trace extensively the history of accounting
measurement in Australia, but rather to demonstrate that the issue has long been a problem that accounting's elite continually chose to ignore or responded inadequately. This perhaps is one of the principal reasons why the issue of measurement remains as controversial and as confusing as ever.

The following chapters will further examine the activities undertaken in a bid to find a lasting and credible solution. An in-depth examination of the AARF and the crucial role that it played in this controversial debate will be undertaken. In a bid to demonstrate that, like their predecessors, members of the AARF preferred to look after the economic self-interest of the profession rather than those whom they were to serve.
CHAPTER 4

THE FORMATION OF THE AUSTRALIAN ACCOUNTING RESEARCH FOUNDATION - A PROFESSIONAL PLOY IN THE PROFESSION'S DRIVE FOR DOMINATION.

The following chapter will focus on the 1960s in Australia, when the corpses of corporations, which by all accounts were seemingly healthy and vibrant, unexpectedly littered the country. The fact that many corporations gave such a misleading indication of their health and stability caused the accounting profession to come under fire as the community called for reforms. It will be argued in this chapter that the formation of the Australian Accounting Research Foundation was a professional ploy at a time of crisis as the accounting profession worked hard to restore its credibility.

INTRODUCTION

The beginning of the first moment of translation, that of problematization can be traced back to the late 1950s as a growing awareness of the inadequacies of historical cost reached a turning point. As previously demonstrated, the problems of historical cost were often considered during the earlier part of the century but the economic environment did not make it a critical issue. Not until the corporate collapses of the 1960s did the problem escalate, as members of the profession became conscious of the inadequacies of historical cost as the economy moved to double-digit inflation.
With economic activity high during the late 1950s and early 1960s, the prospect of investing in large corporations was enticing. The increased interest in corporations, often promising high returns, lured many naive citizens into a new role, that of investor. These amateur investors found themselves in a foreign situation, as much lacked know-how relying solely on the financial reports of the corporations. Public corporations soon became the centre of attention and a popular form of business investment, even for the most novice of investors. However, the boom was to be short lived, and unsuspecting investors became the innocent victims of unexpected corporate failures. It was not long before the reliability of financial statements came under question and the accounting profession under fire.

The 1960s will long be remembered as the decade that brought to an end the post-war economic bloom. Within a period of four years, between 1961 and 1965 such incorrigible damage was done to the accounting profession that it would perhaps take a lifetime to restore. Many issues which were called into question were voiced, many of which today remain problematic, the issue of measurement being one example and the basis of many others.
PROGNOSIS: MISLEADING FINANCIAL REPORTS - A CAUSE FOR THE CORPORATE COLLAPSES

It was during the 1960s that innocent investors fell prey to corporations whose only worth was on paper. Company failures, coupled with harmful criticism against the accounting profession, began to dominate the business news. Large, apparently affluent, organisations that had only months or even weeks earlier reported substantial profits had begun to report losses of millions of dollars. One of the first seemingly prosperous corporations to fall was New Investments in November of 1961, followed by Latec Investments in September of 1962. Other major corporate collapses included Stanhill Development Finance, Reid Murray Holdings and H.G. Palmer in 1965 (Clarke et al. 1997, 38). The common thread through all of these failed corporations was that, up until their collapse, their financial statements portrayed them as financially healthy corporations with outstanding potential; at least that was the indication given by the financial reports. This apparent allowance of misleading financial information by the profession later gave rise to many vital issues being examined, measurement being one of the first.

The business literature of the 1960s is full of cases where the financial reports of an organisation gave incorrect indications as to their economic ability. In February of 1962, the interim report published by
Neon Signs was claimed by the financial press to be the most impressive report published by a company in that financial year. With over a sixty percent increase in net profits, which was claimed would be maintained or possibly even increased by the end of the financial year, Neon's planned diversification policy was welcomed with open arms (Australian Financial Review, February 22, 1962, 14). In September of the following year, the directors of Neon delivered a statement claiming that the organisation had won a contract worth a million pounds, ensuring a head start for the company. However, just over a month later, the directors issued a further statement claiming that, due to errors contained in the balance sheets of two acquired subsidiaries, the profit for the year would be slightly reduced from that first expected (Australian Financial Review, October 30 1963, 7). Two months later, Neon Signs reported a loss of over a quarter of a million pounds (Australian Financial Review, December 13 1963, 7).

Such a situation was not unique to Neon Signs. Reid Murray Holdings was another large corporation that traded as usual up until the day that losses were disclosed. Only weeks before the losses of Reid Murray were made public, the corporation had advertised a debenture issue1

1 Ironically, the advertisement was in the same financial paper that would months later criticise not only the accountants of the corporation in question but the profession as a whole.
under a prospectus which subsequent investigation indicated was misleading [See Appendix 4.1]. Showing no signs of ill health, the prospectus contained accounts up until August 1961, with the directors claiming that the business had been running satisfactorily and that there were no signs to indicate the contrary (Australian Financial Review, January 22 1963, 12). Yet twelve months later it was revealed that a loss of over twenty million pounds was made by Reid Murray holdings in the financial year of 1962 – 1963 (Australian Financial Review, January 6 1964, 6). Subsequent investigations and reconstruction of the accounts indicated that Reid Murray had, in fact, been incurring losses for several years prior to its collapse (Legislative Assembly 1966), a fact well hidden by the financial reports.

The scenario surrounding the collapse of Stanhill Corporation was a similar situation. Despite showing a prospering future, on December 13th 1962 the total losses of the Korman Group of companies totaled five and a quarter million pounds (Australian Financial Review, December 13 1962, 1). Joining the ranks as another statistic was Latec Investments which, months before disclosing losses of over three million pounds, (Australian Financial Review, September 6 1962, 1), was involved in a disclosure dispute with the London Stock Exchange. Latec Investments refuted claims that more disclosure was needed in relation to business dealings (Australian Financial Review, January 16 1962, 4). Like many before it, Latec's greatest concern was that, if further
disclosure was made, outsiders could have access to confidential information before its shareholders (Australian Financial Review, November 21 1961, 30).

In 1962, H.G. Palmer, electrical retailer and distributor, was considered to be one of the most successful corporations operating in Australia. Its eleven-year business history was unblemished, or so it seemed (Australian Financial Review, January 16 1962, 11). However in October 1965, the walls came crashing down and H.G. Palmer reported losses of over ten million pounds, the highest ever recorded for a period of one year in Australia. The reported loss by Palmer added to speculation at the time that, throughout its fifteen years in operation, H.G. Palmer may not have ever made an actual profit (Australian Financial Review, December 14 1965, 1).

In total, the losses sustained in the financial year of 1961 – 1962 from Reid Murray, Latec, Stanhill, Factors and L. J. Hooker alone amounted to seven and a half million pounds, or fifteen million Australian dollars\(^2\). In the financial year of 1962 – 1963, eighty-five public companies totaled losses of over twelve million pounds, that is in excess of twenty four million dollars (Australian Financial Review, January 3 1964, 3). One of the bleakest days of the decade will always be remembered as

\(^2\) This figure has been reached by using an approximate conversion rate of every two Australian Dollars for one pound.
Black Thursday. Not only was it the day on which six public companies disclosed losses of over three million pounds (Australian Financial Review, December 13 1963, 1), it was also a day, among many others, that began to define the potential demise of the accounting profession.

As with every major disaster, be it natural or man-made, a reason for its occurrence was sought and blame assigned. Before long, attention focused on the accounting profession, as it was realised that the financial reports of many of the failed corporations were seen as misleading and designed to serve the interests of management. Inquiries at the time concluded that several of the companies had very misleading statements of profits in the previous year’s accounts and in interim statements last year...These were designed apparently to carry the companies over a lean period in the hope that better times might soon come to cover the temporary slip (Australian Financial Review, January 22 1963, 2).

This apparent lack of commitment by accountants towards their duty to serve and protect the public has often been associated with the misleading nature of some financial reports and the claim that accountants employed poor and inadequate methods of accounting we believe...that the accountants ...must have fallen short of their supposed objective – namely that of presenting a true and fair view of the state of the affairs of the group and of the results of its operations (Australian Financial Review, December 9 1963, 12).

The reliability of financial reports was not the only issue that came into
question; the honesty of the accountants who prepared them was also questioned. Suspicions arose that there

must have been collusion between directors, accountants and auditors to what amounts to fraud...chartered accountants in their endorsement of annual reports declared that the figures were fair and reasonable, when, in fact they were not (Australian Financial Review, January 29 1963, 2).

As criticism mounted, calls were made for official inquiries to be made to investigate the reasons why many prosperous corporations had unexpectedly collapsed:

...chartered accountants in their endorsement of annual reports declared that the figures were fair and reasonable. When in fact, they were not. There should be a Federal investigation into the whole matter with a view to introducing legislation to protect the public against ruthless financial manipulators (Australian Financial Review, January 29 1963, 2).

The fact that the accounting profession had only during the early 1920s begun to move away from its "commercial men" image to professional status in the eyes of the public also attracted criticism in the financial press. Others criticised the accounting profession and its members on the basis that it was tackling diverse activities that did not constitute the activities of an accountant and consequently had led to the disastrous collapses of the 1960s. It was claimed that
accountants, who have only lately and insecurely achieved recognised professional status, have the lowest educational qualification of any profession...what makes Australian accountants so bad is that they won’t stick to their real work but want to become gods, experts at everything under the sun...they are trying to do a takeover of the businessman’s job, to win back the prestige that they have lost (or never won) as accountants...new responsibilities will prove to be incompatible with impartial exercise of what must remain the accountant’s crucial function, auditing...when they find out what their real job is, they’ll see they have their hands full (Australian Financial Review January 21 1965, 2).

The conclusions of the various inspector reports supported the perspective that a great deal of the problem lay with the accounting profession and the practices used. During the course of many investigations it became apparent that many of the organisations which had failed were in financial difficulty for some time but, with the aid of misleading financial records, were able to look healthy and viable (Interim Report Reid Murray Holdings 1963). The common conclusion being, that misleading financial information assisted in concealing the impending corporate collapses.

Outside Intervention – A Possible Reality

By the mid 1960s, a new form of criticism was directed at the accounting profession. Following the collapse of several prominent corporations, Government inquiries (inspectors’ investigations) were commissioned examining the reasons for the collapses. One of the first of such inquires was into events pertaining to Reid Murray Holdings,
which in 1963 became a statistic in the corporate collapse tally.

In response to the demise of Reid Murray, inspectors were appointed to investigate the day to day operations that had taken place prior to its demise. According to the inspectors of Reid Murray Holdings, the failure of financial statements to disclose the position of the organisation contributed to the concealment of impending collapse. The inspectors were of the view that, regardless of what the consequences may be for the organisation, those affected by the reports were to be given first priority and the directors therefore had an obligation to show a true and fair view of the corporation's position. The inspectors' findings detailed their disturbance to find that thousands of people invested in the group in reliance, not upon their own judgment, but upon the advice of men who held themselves out in the community as skilled to give such advice. It seems to us, therefore, that either the published reports and accounts of the group must have been deceptive or inaccurate or that these advisors were either incompetent or negligent. We do not think that the latter is the case (Interim Report Reid Murray Holdings, 1963, 107).

Two years after the report from the Reid Murray investigation was published, the report following the investigation of Latec Investments was also made public. Like the findings of the Reid Murray inquiry, investigators cast doubts on the adequacy of the financial statements published by Latec Investments. In the final report, it was concluded by investigators that the actions and procedures followed in the accounts
and Director's reports by Latec Investments were inadequate and that these deficient procedures had hampered the operations of the company (Latec Investments Report of Inquiry 1965, 140). Furthermore, the investigators concluded that many decisions by shareholders were based on the information provided to them by the accounts of Latec Investments. Acknowledging that these accounts had not shown the true financial position of the firm, the inquiry called for amendments to be made to regulations governing financial reporting. The inquiry concluded that

the untrue accounts issued to shareholders resulted in the issue of false prospectuses...the important issue is whether investments are made with a full appreciation of the risks...this in turn depends on whether the information given to investors is frank and truthful...we have made recommendations for amendments to the law which have the central objective of ensuring that the facts are exposed promptly, truthfully and fully (Latec Investments Report of Inquiry 1965, 219).

In terms of protecting the investors, the inquiry into Latec Investments had also put forth a recommendation for implementing a governing body similar to that of the Securities and Exchange Commission (SEC) in the United States. Having a body similar to the SEC to watch over the affairs of corporations in Australia was seen as a step forward in protecting investors. A thought that was echoed (some ten years earlier) in the Rae Report on Australian Securities Markets and their Regulation (Baxt 1974, 153),
there should be a body similar to the Securities and Exchange Commission of U.S.A. to act as a "vigilant corps" over company affairs in Australia (Latec Investments Report of Inquiry 1965, 207).

After all, society permitted corporations to operate within the community, and it is the wellbeing of society and the need to be protected from unscrupulous corporations that must be addressed. Proposed reforms at the time were not trying to stamp out foolish investments or corporate collapses, as this was acknowledged as being unattainable. What was wanted was to ensure that investments that were undertaken were

made with a full appreciation of the risks. This in turn depends on whether the information given to the investor is frank and truthful. We have made recommendations for amendments to the law which have the central objective of ensuring that the facts are exposed properly, truthfully and fully (Latec Investments Report of Inquiry 1965, 220).

The call for government intervention was not confined to the report of Latec Investments and most of the blame for the unexpected corporate collapses was placed at the feet of the accounting profession. Further, it was presumed by many that the accounting profession was either unwilling or unable to remedy the problem on its own. As indicated in previous quotes, it was not long before the government responded, indicating that it was more than willing to step in to rectify the problem:
the State Government was going to lose no time in taking steps necessary to protect people and correct bad business practices...the present situation shows that such protection is long overdue (Australian Financial Review, September 11 1962, 6).

THE RESPONSE: SELF-INTEREST A PREROGATIVE OR PUBLIC PROTECTION A PRIVILEGE

Despite its credibility declining, the accounting profession chose to stay silent. No public statements were made nor were there any references made in the journals. Speculation throughout the financial press gave the perception that the profession kept quiet in the hope that the problem would pass (Birkett and Walker 1971, 108). There seemed to be a desire by the professional bodies to ride out the storm, to ignore the plight of shareholders, to avoid answering the implications concerning auditing standards (The Bulletin, 1963).

When, finally the profession did respond it was in familiar surroundings at the 1963 annual conference of the New South Wales Division of the Institute. The annual conference devoted a whole session to the corporate collapses experienced by Australia during the 1960s. Unlike the numerous inspector reports that criticised the accounting practices and methods employed, the response by the profession did not implicate the accounting profession as the main culprit in these collapses. The corporate failures were attributed to many varied reasons, none of, which included inappropriate accounting
activities. The public, press and government thought differently.

During the session Sir Ronald Irish, presented a paper entitled *Should We Blame the Auditing Profession?* A prominent chartered accountant, and author of a prescribed text for the Institute's auditing exam, Sir Ronald was not unfamiliar with the difficulties faced by the accounting profession. During this time of great catastrophes, Irish viewed the problem both from the perspective of a chartered accountant and that of an appointed Inspector of Latec Industries.

The paper presented by Sir Ronald looked at the problem at hand by focusing on the financial reports prepared by accountants in a bid to assess the volatile position of the accounting profession with regard to the collapses. Perhaps the credibility of the paper lies in the fact that a passing reference was made to the issue of asset measurement, an issue that was to bring much controversy in the future and at the time was seen as a source of many problems. Acknowledging that the financial reports were based on cost, Sir Ronald argued that the methods for asset measurement complied with Doctrines of Company Law; however, he failed to disclose exactly which doctrines he was referring to (*Chartered Accountant*, 1963, 81). In conclusion, Sir Ronald did not find any problems with the methods employed by accountants but rather sang their praises. Irish claimed that a large percentage of the profession's members were undertaking their job appropriately and that the accounting profession as a whole should not be judged by the
actions of a few. He concluded by saying that

we can be proud of the standards of our professional work, but one bad apple can spoil the lot...no breath of criticism has been or could be leveled at probably ninety nine percent of the accounts issued by companies (Chartered Accountant 1963, 83).

Whilst the paper was supposed to be a serious, in-depth attempt to examine the problem at hand, it would seem that it was also an attempt by Irish to try and restore the profession's ailing reputation and restore confidence in the accounting profession and the financial reports. Presenting his paper, Irish argued that no further evidence, other then that which had been put forward in his paper, was required to demonstrate adequately to the public that financial reports, signed by respectable auditors, were trustworthy (Chartered Accountant, 1963, 87).

Commentators on Irish's paper argued that the paper neglected to focus on the weaknesses of accounting, that may have attributed greatly to the corporate collapses. The paper did not

attempt to record, or even acknowledge the existence of, any shortcomings on the part of auditors (Chartered Accountant, 1963, 91).

Following the annual congress, various members of the accounting profession presented further papers, examining the corporate collapses. Not surprisingly, none of these papers identified any problems existing in the accounting techniques adopted (Birkett and Walker 1971, 110).
In addition to this, members of the profession held various discussion sessions concentrating on the corporate collapses. One such discussion, *Postmortem on Australian Company Losses*, was held in 1963. The proceedings were opened by Professor Chambers, who, at the time, considered the information given to investors to be inadequate and insufficient, claiming that even the most learned of persons would have a hard time basing future decisions on the information contained in the financial reports. Describing all investment as a gamble, Professor Chambers claimed that

no accountant or skilled investment advisor (and therefore investor) could tell from present balance sheets whether they represent the facts per se or the method of presentation (*Australian Financial Review*, March 19, 1963, 13).

The downfall of financial reporting was attributed to a lack of set accounting rules that were to be followed. This, in turn hindered not only the consistency of financial statements but also their comparability (*Australian Financial Review*, March 19, 1963, 13). Ironically, some individuals rejected the call by Professor Chambers for greater disclosure, claiming that there was no need for further disclosure to be made as

most shareholders ... had neither the time nor the knowledge to competently handle more reports (*Australian Financial Review*, March 19, 13).

Not until 1964 did the accounting profession publicly respond to the barrage of criticism directed towards it which resulted from the
conclusions of the inspectors' reports. The General Council of the Australian Society of Accountants announced that a committee was to be formed which was to investigate the accounting profession's role in the company failures of the 1960s. It was stated that a study will ... be made of the problem of accounting standards, having in mind that accountants are often faced with the difficulty of choosing between a number of alternative methods of recording and presenting financial data. To aid in the solution of this problem General Council plans to extend its research work so that an intensive study of accounting standards can be made with the object of narrowing differences of opinion (Birkett and Walker 1971, 113).

Expressing concern at the potentially harmful conclusions reached by the inspectors' reports pertaining to financial statements, the profession believed that it was important to examine the validity of the findings and make recommendations as necessary in order to see the situation rectified (Australian Accountant 1964, 288). Thus the Australian Society of Accountants had announced that it had been naturally perturbed over the findings of investigators insofar as such findings have reflected on the validity of published financial statements. Accordingly, it had set up a representative committee to examine the accounting implications of recent investigations. These were ambitious aims, though the announcement indicated that the problem and its solution had been prejudged - there was a need to narrow differences of opinion (Birkett and Walker 1971, 113).

Whilst the findings of the examination acknowledged that there were
deficiencies that had led to limited fraudulent activities (Australian Society of Accountants 1966, 45), the profession was not about to accept all of the blame. The examination concluded that much of the criticism against generally accepted accounting principles and the accounting profession was unjustified for various reasons, including the fact, that many activities criticised were outside the scope of the accountant's responsibility (Australian Society of Accountants 1966, 5). The committee stated that

so far as the criticisms of accounting principles themselves are concerned, General Council has reached the view that a number of the criticisms made are unjustified, or are not soundly based. It is emphasised, however, that the reports examined contain criticisms of areas which lie outside the responsibility of the accountancy profession, and which concern parties who are not members of the profession (Australian Society of Accountants 1966, 5).

Buried under an avalanche of criticism and calls for government intervention (Australian Financial Review, November 23 1966, 2), the onus was on the accounting profession to respond. The future of the profession had to be rescued, particularly, with the threat of outside intervention
A few years ago at a NSW meeting of the Chartered Accountants' Research Society, a layman's suggestion that if auditors did not tighten up their practices the Government would have to step in and do it for them was greeted with derision. The Securities and Exchange Commission, which has been growling over the accountants' alleged failure to adopt reform measures on their own, is now showing a sharp set of teeth, threatening to force new rules of its own on the profession (Australian Financial Review, November 23 1966, 2).

During the time that the profession had commissioned the above investigation, a rumor had begun to circulate, claiming that a "revolution" within the accounting profession was about to take place.

It was claimed that

behind the discreetly closed doors of the accounting profession ... it was stated that the Institute had hired a firm of public relations consultants to improve its image, and that fresh recommendations were being drafted by the wise men of the institute (Birkett and Walker 1971, 114).

This revolution would prove to be the formation of what today is known as the Australian Accounting Research Foundation.

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THE FORMATION OF THE AUSTRALIAN ACCOUNTING RESEARCH FOUNDATION - PROFESSIONAL PLOY OR PUBLIC INTEREST.

Over three decades after its official formation, the Australian Accounting Research Foundation (AARF) still continues to be an important part of the accounting profession. Yet despite its perceived prominence, literature today fails to discuss adequately the formation of the Foundation, with the exception of one recent publication, The Foundation, by Geoff Burrows (1996). However, according to Parker (1998), whilst this publication gives great detail to the publications of the Research Foundation through the years, it fails to explain adequately "...how an Accountancy Research Foundation metamorphosed into an Accounting Research Foundation" (Parker 1998, 135). It is the explanation of this metamorphosis that will bring to reality the argument that the formation of the Foundation, the subsequent restructuring of, and the activities undertaken by the AARF were yet further defense mechanisms used by the professional bodies in the war against criticism.

When first formed the Foundation was referred to as the Research Foundation; today the Foundation is known as the Australian Accounting Research Foundation (AARF). Therefore this study will interchangeably use both terms when referring to the Foundation.
The profession's continued need to save itself from such criticism as that which it endured during the 1960s has often seen the profession preoccupied with its own self-interest in a bid to attain and maintain its domination of accounting development. As Lee (1995) has stated, during the past the accounting profession has in times of despair chosen to protect the public in a self-interested way. It would seem that the formation of the Research Foundation was one of those times. Despite years of research being undertaken by both professional bodies in relation to measurement, much of which will be seen in later chapters, little seemed to have been done whilst criticism continued to mount. The profession claimed that the Research Foundation was formed in order to rectify this problem.

Yet there is evidence to suggest that the Research Foundation was a strategic move on the profession's part to help restore faith in an increasingly mistrusted profession.

The Formation of the Research Foundation: Following In the Steps of Our Overseas Counterparts

Slowly, criticism against the profession began to get louder, as issues
like measurement, which were considered vital to accounting practice, were also considered to be inadequate. For too long the profession in Australia was concerned not so much with productive research as it is conducted today, but with such issues as professionalisation and the need to maintain the profession's status-quo in the eyes of the public. Dismissing important research issues for some years, it was not until the 1950s that research began to gain some importance, as negative criticism continued to mount. Like our overseas counterparts, Australian accountants too, with our isomorphic characteristic, found solace in accounting research, the magical cure that was to be the answer to all problems.

Australian accounting journals became enthralled with the research efforts taken up by accounting professions overseas, particularly in the United States. As the

Australian accounting profession maintained a watchful eye on overseas developments, so too did Australia's most prominent accounting journal *The Australian Accountant*, which devoted numerous pages in writing about and reviewing work undertaken in the United States. It was this devotion to overseas research developments that seemed to have influenced Australia's own research path (Birkett & Walker 1971, 42).

Throughout the next two decades, the Australian accounting profession would undertake various activities, all in the name of research. The first of such activities was the implementation of debating societies in 1928 followed by the establishment of a Research Society in 1933. One,
however, could question the priorities of this society when, at the time, apart from proposing to discuss many “subjects of interest to the profession”, the social functions of the society rated highly on the committee's agenda. For example, luncheons and other such social functions were reported in the Federal Institutes' New South Wales division annual report (Federal Institute of Accountants 1932, 4).

For much of the early years, research in accounting did not in any way criticise the practice of accounting, but rather concentrated on what was being done in practice and not what was considered best practice. To compensate, talks and lectures were held, attempting to guide accountants as to how to deal with the complexities of accounting practice. In this way, past experiences were being shared amongst accountants. It was not until the late 1930s that a paper presented to the accounting congress openly acknowledged the inadequacies of accounting terminology and called for reform to take place (Commonwealth Institute of Accountants Jubilee Convention, 1937)

What remained inchoate was the profession's idea of activity which constituted research...so far, very little research in accountancy has been done in Australia (Fitzgerald 1949, 174).

In 1949, the Second Annual Congress on accounting was conducted with the main theme being the re-evaluation of accounting. Whilst most papers presented at the congress dealt with issues on how best to improve accounting practice, discussion was dominated by how best to
enhance the professional status of accountants (Birkett and Walker 1971, 99).

The discussions arising from this concern highlighted an important conclusion: in order to gain and maintain public confidence, the profession must be seen to respond to the public's outcry for remedies. Being seen to be taking action would not only maintain public confidence in the profession, but would also reduce the risk of outside intervention. Thus the profession continued to try and satisfy an increasingly impatient public. Some ways, which were suggested for improving public confidence, were to

identify and clearly state an area of professional responsibility; initiate social change in the public interest, within this area respond to changed social needs quickly, immediately if possible; establish, continually examine, and improve the standards of practice, conduct and competence of accountants. The promulgation of authoritative standards was seen to be a necessary condition of professional status, the dynamism of accountants, in initiating, responding, adapting, the key to enhancing this status. Continued confidence by the public was seen as the essential prerequisite for maintaining professional status. By the above actions public confidence in accountants would be maintained, and there would be little need, or possibility, of legal encroachment on the profession's domain (Birkett and Walker 1971, 99).

Thus the profession continued to try to satisfy an increasingly impatient public.

Numerous committees were formed during the years, but by the late
1970s it was apparent that they had made little progress, as the following quote encapsulates

The two accounting bodies (Society and Institute) had "Research Committees" but speaking as a member and chairman of the Society over a period of some years, they were pathetically weak. We spent inordinately long periods debating what we would today regard as trivia. Our resources were next to nil, and our output matched those resources (Archive File 129, 1980).

In many cases, committee members did not believe that they would do any better a job than their predecessors in fine-tuning the activities of accounting. It was this type of thought that perhaps hindered such committees as the NSW Division Research Committee, which was set up for defining vital accounting issues, from reaching its full potential. One of the key members on this particular committee was Professor Chambers. From the outset, Professor Chambers advocated the need to define two fundamental terms, financial position and income, if the committee was to be successful, it would be from these terms that all else would stem. The somewhat bewildering response to this request by other committee members indicates the lack of confidence that committees held in relation to finding solutions to problems, which could not be found before

professional people and commentators and writers have been talking about that for years and years and years and have never reached a conclusion and we're not likely to reach one either (Interview with Professor Chambers).
It was this type of belief that resulted in the accounting profession being accused of doing nothing. For, at the end of the day, very little development in relation to accounting research was evidenced and old issues became new again.

With criticism continuing to mount and an already failing reputation, the professional bodies resorted to denying strongly any criticism directed towards the profession. Birkett and Walker argue that any criticism of the basis of accounts, or of the profession's view of the nature of accounting and auditing, was vehemently rejected - the critics being considered either misguided or mischievous (Birkett and Walker 1971,104).

The professional bodies had begun to use the tools of discourse and dissidence to ensure that their hegemonic ideal was not shattered. An ideology was created whereby the professional bodies remained dominant and were portrayed as being indispensable to the accounting profession.

During the 1960s, the accounting profession in Australia reached a critical stage. Its attempts, much of which relied heavily on British accounting practice, to develop adequately accounting principles and improve accounting practice failed dismally. It was at this point in time that the Research Foundation made its timely appearance. Aptly using the term "research" in its title, the Foundation was formed at a time when, despite decades of so-called "research", for example, conducting,
congresses and various lectures, corporate collapses were still taking place and the accounting profession's credibility was declining.

Australia's move to set up a Research Foundation was in line with what had been done in both the United States and the United Kingdom. In the United States, after twenty years of endless research between the American Institute of Certified Public Accountants and the American Accounting Association, the Accounting Principles Board (APB) and the Accounting Research Division were formally setup in a bid to narrow the inconsistencies and confusion of accounting practice. In the United Kingdom, the same path was taken, as the Institute of Chartered Accountants in England and Wales also setup research committees to be conducted through the then newly established Research Foundation, all with the aim of improving the standards of accounting practice (Chartered Accountant in Australia 1965, 341).

A Generous Pledge and The Genesis of the Research Foundation

The genesis of the Research Foundation can be traced back to the Australian Society of Accountants Convention at Mt Eliza in 1959. It was at this convention that Mr Stanley Korman, chairman of Stanhill Consolidated, pledged to donate to the Australian Society of Accountants ten thousand pounds over a period of five years in aid of research. While this generous donation was made on August 29th 1959 to those in attendance, news of the donation was not made public until
September 3rd (See Appendix 4.2) due to the slow response by the professional bodies to questions by journalists regarding this matter (Archive File 130, 1959). Official response to Mr Korman had also taken some time, as it was not until late September that the professional bodies had expressed gratitude for the donation. In a letter to Korman, the Society stated

For some time, this Society has had under consideration various means of undertaking much needed research and investigation into unresolved problems of accounting. Your imaginative interest in the matter presents us with an opportunity to approach the task on a scale, which will have important influences on accounting in Australia and possibly overseas. We are most grateful to you for your offer and hope that the plans can soon be made more widely known and appreciated (Archive File 132, 1959).

Originally, Korman had made the donation in order to form a readership in international standards of accounting. One of the issues that greatly concerned Korman, and which continues to be of importance within accounting today, was that of having Australian accounting standards accepted and acknowledged overseas. In response, almost six months after the announcement by Korman, the professional bodies agreed to set up a research foundation to which this money would be given (See Appendix 4.3) (Archive File 131, 1960).

Once knowing what Korman wanted his money to be put towards, the professional bodies began to advocate the need to have accounting
standards accepted overseas. During the Asian and Pacific Accounting Convention in 1960, which was held in Melbourne, this need was made public during the technical session on accounting standards which was entitled "Problems in Achieving National and International Acceptance of Accounting and Auditing Standards: when the following was stated:

assuming that there is a need for clear and authoritative statements on accounting standards, and that the profession accepts this responsibility, the problem is how such standards are to be effectively developed and established. This problem goes much further than general acceptance of standards within a country. Standards can and do vary as between countries. The international ramifications of some large enterprises and the development of international trade highlight the importance of international accounting and auditing standards (Archive File 133, 1960).

The fact that the profession had suddenly become interested in this issue was considered to be a coincidence by Korman, who declared that it was:

rather a coincidence that no sooner than I made the suggested contribution, that I find the necessity of having such principle of international understanding of accounting so desirable to the welfare of our country (Archive File 134, 1959).

A recent publication outlining the history of the AARF, acknowledged that at the time in question, the professional bodies had to take immediate action. Faced with the promise of a substantial donation and public criticism mounting, the professional bodies knew that action had to be taken and a long-term strategy was required because
if the profession could not find a way to clarify accounting principles in the public interest either some Government regulatory body would be set up to do so or it would be done by piece-meal legislation (Burrows 1996, 16).

This long-term strategy was the Australian Accounting Research Foundation (Burrows 1996, 15), the "revolution" that was to be the answer to the problems facing the accounting profession. Critics, however, were not silenced by the actions of the professional bodies. As they were fully aware that fruitless action could be undertaken by the profession in order to prove to the community and various authoritative groups that the profession was capable of rectifying the situation on its own.

Accounting literature openly declared that the formation of a Research Foundation could be linked to the professional bodies wanting to prove their professionalism and ability to the business community. So intent were the two professional bodies to prove their ability that, for a short period of time, it was thought that the two bodies were going to form a Research Foundation separately, particularly as it was seen as a way of securing support for contentious issues:

> Research is probably a misnomer for what the profession has in mind, which is, rather, the securing of unanimity on points that today are disputed (Australian Financial Review 20 January 1965, 2).

The news that a Research Foundation was to be formed was not openly discussed in professional publications until the mid 1960s. The
original plan to form a Research Foundation was not formally announced until November 1965 by the Presidents of both the Institute and the Society. This announcement was not officially confirmed by the professional bodies until June 1967 (*Archive File* 138, 1979). The actual application for incorporation took place in August 1966, almost seven years to the day after Korman had made his pledge, six newly appointed members (See Appendix 4.4) were brought together to subscribe to the formation of the Foundation (*Archive File* 135, 1966).

The concept and ideas of two prominent members of the accounting profession, Ken Little and Cliff Anderson, inspired the Research Foundation. Little held the position of managing partner within Arthur Anderson in Melbourne whilst also an Institute General Councillor. Cliff Anderson was, at the time, the General Registrar of the Society, formed jointly by both the Institute and the Society, the Foundation was to make research its full time job in an endeavor to improve accounting principles. At the time, it was claimed that the main purpose of the Accountancy Research Foundation was the consolidating and refining [of] accounting and auditing principles and of conducting research into unresolved problems of accounting and auditing ... The establishment of the Foundation inaugurates a major service to the profession and the business community (*Australian Accountant* 1967, 317).

In order to accomplish this goal, the Foundation was to offer several services including the issuing of pronouncements, advice on a free basis
to members of the profession and others who might need guidance in accounting activities, as well as conducting research sponsored by other organisations (Archive File 136, 1964).

The Independence of the Foundation

The independence of the Research Foundation was of top priority at the time of its incorporation. Yet today, the Federal Government has questioned the independence of the Australian Accounting Research Foundation and its ability to set adequately Australian Accounting Standards.

To assist in maintaining its independence, it was stated that the Foundation would be incorporated as a separate legal entity limited by guarantee (Australian Accountant 1965, 573). Not only would this assist with the independence of the Foundation as it was a legal entity in its own right, it would also make the prospect of donations to the Foundation more appealing. Donations made to the Foundation would be classed as an allowable deduction for taxation purposes (Archive File 132, 1959). However to achieve this privilege, accounting research would have to be classed and accepted as scientific research under the Income Tax Assessment Act, which would be greatly influenced by the actual existence and functioning of the Foundation (Archive File 136, 1964).

The Foundation's independence from the two professional bodies is
questionable considering that both professional bodies jointly funded the operations of the Research Foundation. When it was first incorporated it was stated that the two professional bodies would finance the Foundation to the tune of ten thousand pounds a year each:

The Foundation would be primarily financed by annual contributions from the Institute and the Society. It is proposed that, initially, the Institute and the Society should each undertake to contribute 10,000[pounds] a year as from 1 January 1965 (Archive File 136, 1964).

During the years 1967, 1969 and 1972 financial reports of the Foundation clearly indicated that the contributions made by the professional bodies made up over ninety percent of the Foundation's total income (See Appendix 4.5). In 1967 contributions by the Society and Institute made up just over ninety nine percent of the Foundation's income, whilst in 1969 the total was ninety five percent. In 1972, eight years after incorporation, contributions by the Society and Institute to the Foundation's total income was just over seventy eight percent (Archive File 137, 1967-1972). The remaining income was derived from bank interest and interest in relation to short-term deposits.

Today, the Australian Accounting Research Foundation continues to be primarily funded by the two professional bodies; however, there are also other influential sources of funding which enable the Foundation to continue, and leads to the questioning of the Foundation's independence. Sources of funding have in the past, included;
 whilst the primary funding still comes from the two professional bodies, it is clear that, apart from the sale of publications, Government sources also contribute financially to the Australian Accounting Research Foundation (See Appendix 4.6). This fact lends substance to the claims that the Australian Accounting Research Foundation is far from independent in its operations, a concern voiced in the Corporate Law Economic Reform Program (CLERP), which questioned the independence of the AARF:
In contrast with the position in most overseas jurisdictions with standard setters, the AARF itself is not directly accountable to the boards it services, but to the professional accounting bodies. This has led to the perception in some quarters that the accounting profession may be in a somewhat privileged position in terms of potentially influencing the outcome of standard setting. Whether this influence is actual or perceived, it is important for the credibility of the standard setting process that it is seen to be in fact independent and not subject to undue influence by any one group of interests (Commonwealth of Australia 1997, 38).

It is the aim of CLERP to ensure that the reforms bring about greater independence in the standard-setting process, attesting to such claims of non-independence by the Foundation in its standard-setting procedure.

**Metamorphosis and the Australian Accounting Research Foundation**

When formed, the objectives of the AARF were to ensure that accounting research was never neglected or taken for granted (Kenley 1972, 10). Ironically, the Foundation's penchant to deflect criticism from its work and the profession as a whole had just that effect. The first formidable task undertaken by the Accountancy Research Foundation, was to deal with the criticism of the corporate collapses, that technically was not directly related to accounting practice. This step was initiated by the recommendations put forward by the profession after its examination of the inspector's conclusions of the
corporate collapses and the profession's role in them. It was recommended that the Accountancy Research Foundation look into and report on the wider issues that faced the profession. According to the accounting bodies, doing this would result in an end to the misleading and irrelevant information that was being published in the financial reports (Australian Society of Accountants 1966, 7).

The first years of the Foundation were marred by the fact that a suitable candidate to take on the position of Director was unable to be found. Despite the position being widely advertised in Australia and Overseas, it was not possible to make an appointment. It is hoped that a suitably qualified person will become available for appointment in the near future (Archive File 139, 1966).

Although there was no shortage of applicants, those that did apply either later withdrew their application or were not seen as being suitable for the position. It was not until 1969 that it was thought that the appropriate person Peter Danby had been found. He was appointed as the Foundation's first Director. However, Danby would go down in history as the shortest serving Director of the Foundation to date. His directorship lasted for a period of eleven weeks, resigning after his realisation that he was not suitable for the position (Burrows 1996, 26).

The seemingly endless search for a suitable Director continued until 1971 when John Kenley was appointed as the Foundation's director, a position he retained until 1974.
Research in accounting was seen as being substantially important to the well-being of the accounting profession and it was the Foundation's role to protect and nurture accounting research. Although research was an important tool, there was yet another important factor that was to go hand in hand with accounting research and that was international acceptance. Being able to entwine and equate the activities undertaken by the AARF with activities undertaken overseas was important to the Foundation and was so voiced in the inaugural speech of the Australian Accounting Research Foundation.

The Accountancy Research Foundation has been established for the purposes of consolidating and refining accounting and auditing principles and of conducting research into unresolved problems of accounting and auditing. It is hoped that the research undertaken by the Foundation will be co-ordinated with that of professional bodies, academic institutions, leading firms of practitioners and individuals both in Australia and overseas (Archive File 138, 1979).

However, according to the Foundation's own admission, as time passed, there seemed to be a substantial shift in the activities of the Australian Accounting Research Foundation. This shift saw what once was important, sacrificed for the sake of the profession. An important question, and one which Parker (Book Review 1998) saw as crucial, was why this change had taken place? Looking through literature written at the time, it would seem that the changes that occurred in the Foundation's structure were interrelated with the need to ensure that public criticism was kept at bay and its self-regulatory status
The establishment of the Australian Accounting Research Foundation, the Accounting and Auditing Research Committee, represents a most significant move by the profession in Australia to accomplish something positive in the formulation of accounting principles applicable to Australian conditions. By issuing statements on accounting and auditing principles which will expose vital problems affecting the profession for further intensive discussion and thought, and by its other activities, it is certain that work of the Foundation will be of the greatest importance to the profession (Archive file 1).

The life of the AARF to date can be segregated into three phases which influenced the direction the Foundation was to take. In fact, it was the movement from one phase to the next that, according to the Foundation’s own admission, was the reason why the objectives of the AARF had changed (Archive File 138, 1979). The movement from phase to phase was inspired by the need to save the Foundation from any unwanted criticism.

**Phase One: The Research Era 1965-1973**

Phase one of the Foundation’s history spanned from 1965, the time that the Australian Accounting Research Foundation was officially formed, to 1973. This period can be referred to as the Research Era, a time when all attention and effort was focused on research as it was seen to be the answer. The structure of the Foundation was such that any research that was to be undertaken was to be decided by the Accounting and
Auditing Research Committee on which the Institute and Society were equally represented. In spite of the claim of independence, it was this committee that effectively determined what research activities would be undertaken and what overall conclusions would be reached by the Foundation. It was decided that

the Accounting and Auditing Research Committee shall have power to do all things necessary for or incidental to the furtherance of the objects of the Foundation in the conduct of research and the dissemination of knowledge and information including the selection of the staff required for the purposes and the direction and supervision of their research and technical work...a function of the Accounting and Auditing Research Committee shall be the preparation of statements on Accounting and Auditing Principles but such function shall not extend to the issue of recommendations on Accounting and Auditing Principles it being understood that such recommendations are the prerogative of the Institute or the Society as the case may be (Archive File 165, 1966).

Whilst the Director and staff of the Foundation developed recommendations as to what activities should be undertaken, the Accounting and Auditing Research Committee had to agree and support the idea before any work could commence. During this period, several publications were produced (See Appendix 4.7), including completion of several accounting standards. The need to improve financial statements saw general and particular issues discussed and examined.

To improve the stance of accounting, the Foundation thought it necessary to obtain an understanding of the type of research that was
being conducted within the business and academic communities. Together with Professor Standish, from the Australian National University, the Research Foundation undertook a survey entitled *Financial Reporting Practices*. This was done in the hope that the final result would be an improvement in financial reporting practices and publication of worthwhile research material as it was perceived to have done overseas (*Archive File* 139, 1966). Whilst the Foundation was to concentrate on research, it was not till the later part of phase one that the Research Foundation publications began to appear.

Although a heavy emphasis was placed on research issues the overall publications issued during the period were heavily weighted towards that of accounting standards and exposure drafts. Collectively, during phase one, fourteen publications were issued of which forty three percent related to research studies, the remaining publications concentrating on accounting standards and exposure drafts (*Archive File* 138, 1979). Like the studies undertaken in the United States and in England, Australia became preoccupied with accounting principles and their ability to improve financial reporting (Moonitz 1974, 10).

By the beginning of the 1970s, the Research Foundation had begun to walk a rocky path. Difficulty was experienced in undertaking the intended research as the objective and running of the Foundation were not seen to be up to par. As many questioned the adequacy of the work
Representatives viewed at some length various aspects of the operation of the Foundation. In a wide-ranging discussion, the objectives, administration and financing of the Foundation were considered, particularly in the light of difficulties experienced since the formation of the Foundation. Although some doubts were expressed as to the appropriateness of the present objectives and control of the Foundation, it was emphasised by representatives of both organisations that there was no suggestion that support should be withdrawn from the Foundation, or that it should be discontinued (Archive File 140, 1970).

The need for the Foundation to review not only its objectives but also the way in which its objectives would be met was considered during The Seventeenth Conference of Representatives of both the Institute and Society held early in 1970 (Archive File 140, 1970).

This much-needed review of the Foundation’s operations did not seem to eventuate, as the end of phase one was influenced by inconsistency and confusion of the research activities undertaken. The inconsistency that existed caused the two Australian accountancy bodies, during the first half of 1973, to review their research endeavours and they were not pleased with the result...the Joint Standing Committee (JSC) meeting of July 1973 [was] temporarily adjourned whilst members of JSC telephoned responsible persons in an endeavour to clarify who was studying what and for which purpose (Archive File 129, 1980).

As time passed, it became evident that the AARF’s research efforts were
failing dismally. There was an apparent predicament where the profession was concerned, as not even the Foundation who were to be the forefront of the profession's research, knew what was happening:

Our organisation was sadly awry, duplication could easily happen, fund allocations bore relationship to needs, [and] the responsible body (JSC) had little or no knowledge of what was happening (Archive File 129, 1980).

In response to this internal catastrophe, a committee known as the Hepworth and Thiele Committee was formed. Working together with the chief executives of both professional bodies, the committee's aim was to make a recommendation as to the restructuring of the Research Foundation. By October 1973, it had officially been announced that a re-structuring of the Research Foundation was to take place. Publicly, the professional bodies claimed that splendid progress had been made (Archive File 1, 1979), however, the AARF knew that re-structuring of the Foundation was required if there was to be an improvement in the status of accounting practice within Australia. It was envisaged that a re-structuring would result in an acceleration of the preparation of accountancy standards and improvements in accountancy practice ... following important changes ... the new proposals should improve the effectiveness of the research and technical activities of the profession, expedite the issue of statements of accounting and auditing standards and contribute to the raising of standards of accounting practice in Australia (Archive File 1, 1979).
With this declaration, the Foundation, in 1974, entered its second phase of existence, which ended in 1977.

**Phase Two: The Current Cost Accounting Period 1974-1977**

Phase two has been described by the Australian Accounting Research Foundation as the Current Cost Accounting (CCA) period. The CCA period was an epoch when emphasis on research declined and focus on developing accounting standards increased. In other words, there was a gradual change away from research which had been the original focus and objective of the Research Foundation.

With Australia experiencing double-digit inflation in the mid 1970s the economic environment was turbulent. There was overwhelming pressure being placed on the Research Foundation to find a solution to inflation accounting.

the profession had a responsibility for solving the matter of "inflation accounting" (by whatever name) and that this was no less important or urgent (Archive File 129, 1980).

Almost immediately, the International Accounting Standards Committee (IASC) was formed and work on price level accounting, equating with that done overseas, had begun.

During phase two, the Research Foundation issued numerous publications, all of which clearly indicated a change in focus. Accounting standards and exposure drafts represented seventy percent
of the Foundation's publications, a rise of thirteen percent from phase one (See Appendix 4.8). An examination of archival material indicates that the favoured topic had become current cost accounting, which was considered by the Foundation to be a suitable alternative to historical cost and a solution to inflation accounting.

Initially the Accounting Standards Committees from both the Institute and the Society whilst separately constituted, worked together in the preparation of accounting standards. However, under the restructuring of the AARF this was to be altered. Research activities of the Foundation were to be conducted by joint committees within the Foundation itself (See Appendix 4.9).

Mobilising into action, the Research Foundation had to ensure that outside support for the restructuring was received. The objective of this move, as described by the AARF, was to demonstrate to the outside world that Committees from both professional bodies were able to work through technical problems and develop suitable answers together. The presentation of a united profession quite capable of working to overcome any obstacles eliminated the need of outside intervention.

The greatest hurdle that the Foundation had to overcome was the persistent view of some members of both the business and academic communities that the professional bodies could do better to serve the community. For example, Chambers saw many problems with the
research activities undertaken by the Research Foundation including its
day to day running operations. Accordingly, Chambers criticised the
Foundation in an analysis which he undertook in the hope that such
problems would be brought to light and resolved (Interview with
Professor Chambers 1998).

The first question raised by Professor Chambers was whether the
Foundation was undertaking too many projects at once and thus
denying the urgency of some. Furthermore, Chambers criticised the
Foundation's lack of a framework that could be used for project
coordination. In addition to this, many staff members undertaking the
projects had no prior experience with, or knowledge of, the issues they
were to resolve.

Professor Chambers also criticised the process that was undertaken
when an exposure draft was being issued. According to Chambers, it
was first necessary for the Foundation to give a clear explanation of the
problems that existed and which warranted an exposure draft being
developed and issued. In addition to this, once the exposure draft was
issued, Chambers argued that details of all submissions received
should be publicly available. Overall Professor Chambers criticised the
profession's approach to research as inadequate, and considered the
fact that tension existed between academics and practitioners as
another negative influence.
Professor Chambers was by no means alone in his criticism of the AARF's operations. Archival research reveals that various individuals and groups ranging from academia and industry also shared Chambers' discontent. Great dissatisfaction also existed with the overall development of accounting and auditing standards under the then existing structure of the Foundation. Faced with the need to resolve the problem of inflationary accounting, the Foundation attempted to persuade forcefully an unwilling community to accept current cost accounting. As a result, much unwanted publicity and criticism was directed at the Foundation, which ultimately realised that

the ... major area of undesirable publicity was that of CCA ... the continuance of such a concentration of our effort upon a technical concept which to this point has attracted to us more public scrutiny, and at times, journalistic scorn, than has any other single issue in our history (Archive File 138, 1979).

Enduring the evident dissatisfaction proved to be a trying time for the Research Foundation, resulting in yet another major restructuring.

As impatience grew amongst the business community, the Foundation and its representatives realised that change was inevitable if the Research Foundation was to avoid another round of scathing criticism from predators who apparently wanted nothing more than improved financial reporting practices. In late 1976, recommendations were made for drastic changes to be made to the structure of the Foundation (See Appendix 4.10):
Whether we were right or wrong, justified or not, the profession came to be less than satisfied with the performance of the AARF, a feeling which culminated in that the Institute presented to the JSC a paper which recommended drastic changes in the control of and method of operation of the Accounting Standards Committee (Archive File 138, 1979).

Adhering to the restructuring proposals, the following changes were recommended within the Australian Accounting Research Foundation;

➢ That the then existing administration of the Foundation be replaced by the Foundation Executive Committee

➢ The detailed work of the Australian Accounting Research Foundation would be done by individuals or organisations under contract

➢ The several committees of the Australian Accounting Research Foundation would be re-grouped and a new group, an advisory research panel, appointed. The advisory research panel would be responsible directly to the Joint Standing Committee (JSC), directing the attention of the JSC to events or developments that appear to warrant the preparation of new or revised standards.

Coupled with the introduction of committees within the AARF structure, the Foundation continued to replace its focus on research with a heavier focus on the development of accounting standards and audit practice guidelines and entered phase three which spanned from 1978
Phase Three And Beyond: The Introduction Of The Accounting Standards Review Board 1978 to date

Moving into phase three, and prioritising an advisory research panel, the Foundation reneged on the objectives that had underpinned its formation. The Foundation justified the restructuring, claiming that it was a short-term solution for combating criticism:

In the latest reorganisation of the Foundation, research ambitions were abandoned altogether; all efforts are to be concentrated on the development of accounting standards and audit practice guidelines. As a short-term response to mounting criticism, both from within and without the profession regarding the lack of standards, this new direction is understandable (Archive File 1).

During the early stages of phase three, sixty nine percent of publications issued by the Australian Accounting Research Foundation dealt with accounting standards and exposure drafts. This evidence supports the view that the Foundation's focal point had drastically altered (See Appendix 4.11)4.

4 Archival research has indicated that unofficially, some members of the Foundation had claimed amongst themselves that phase four of the Foundation's structure had begun with the introduction of the Australian Standards Review Board in 1981. However this has not been officially addressed or recorded in the documents attained pertaining to the Australian Accounting Research Foundation's history.
According to a seminar paper prepared by the Foundation, it was acknowledged that the criticism and continual threat of outside intervention influenced the changes which the Foundation had undergone. The need to protect the economic self-interest of the Research Foundation substantially determined the actions taken. Yet as the Research Foundation began to concentrate on accounting standards and exposure drafts (at the expense of research), it also began to lose its independence.

For in 1984 the Accounting Standards Review Board (ASRB) was created as a direct response to the apparent non-compliance by corporations to accounting standards. The main force behind the establishing of the ASRB seems to be the 1981 Final Report of the Committee of Inquiry into the Australian Financial System, or better known as the Campbell Committee Report. That report, after examining in excess of 2400 company accounts, had concluded that forty five percent did not comply with accounting standards (21.58, 372 - 373). Furthermore the committee "recognised the political nature of accounting standards and the potential to affect the economy through investment behaviour" and therefore concluded that the accounting profession should not be solely responsible for determining accounting standards (Cooper 1994, 175).

Given the above findings, the committee recommended
(a) The two professional accounting bodies should continue to be responsible for the design and development of accounting standards.

(b) An Accounting Standards Review Board should be established with responsibility for deciding on the adoption of accounting standards, having regard to the needs of different users; the NCSC, professional accounting bodies and other interested parties should be represented on the Board.

(c) Accounting standards recommended by such a board should be given legislative support (21.55, 372).

Ironically, whilst trying to defend itself and the profession as a whole from the perils of intervention, the Australian Accounting Research Foundation had managed to make itself a prime target for outside intervention. For once the Foundation had crossed the line and had begun to deal in technical issues, its independence was lost, as the outcome of these activities would have great implications for society, thus making the profession more accountable to the wider community.
CHAPTER 5

INFLATIONARY ACCOUNTING: DISPPELLING THE MYTH OF PROTECTING THE PUBLIC INTEREST

Just as it is one thing to hope and another to achieve, it is one thing to recognise worth and another thing to measure worth (Maskell 1941, 119).

This chapter will apply the theoretical framework of this study to actual occurrences of the 1970s, to dispel the myth that the AARF, as an arm of the professional bodies, works towards protecting the public interest. In doing so, it will be demonstrated that, contrary to the AARF’s claims, its need to maintain its status quo resulted in self-interest being put ahead of the public interest. Despite apparent efforts by the AARF to resolve the measurement dilemma, little has been accomplished as the Foundation continually moved through the translation process of power and encountering hegemonic struggles in an effort to combat criticism. Repeating the translation process of power, the AARF fought to maintain its dominance, and protect its self-interest. The chapter will focus on the activities of the AARF during the 1970s when it undertook to find and implement an alternative solution to historical cost. An in-depth examination will demonstrate that the AARF was able to maintain dominance of the wider business community by creating a hegemonic environment.
INTRODUCTION

To the outside world, the AARF was continually working towards a better economic climate, listening and responding to the needs of those whom it was to serve and protect. However, a different story emerges from within the Foundation. It is a story of deceit and greed, not a lust for monetary gain but domination, the need to remain the elite of society, the need to remain a self-regulated profession. The hegemonic power possessed by the AARF was so great that this, coupled with the assistance of accounting discourse, enabled the AARF to discourage critics from expressing their point of view. Some critics were effectively convinced that they were a minority in their thinking who misunderstood what the AARF was proposing.

Although some critics were silenced, others were not so easily convinced, resulting in an endless hegemonic struggle as the dominance of the AARF was challenged. To conquer the threats of these unsilenced critics and secure its status, the actions of the AARF began to move through a process that can be likened to the moments of Callon's translation process of power. This preoccupation with the need to maintain domination meant that very little development was evident throughout the decade regarding finding an adequate alternative method to historical cost.

For years the issue of measurement has divided the business
community, not only in Australia but overseas also. Ever since the First World War, in Europe and after the Second World War in Australia, inflation has caused great havoc for the accounting profession as it became apparent that historical cost was not an adequate substitute for having the information supplied by the company itself. If you accept that a set of published accounts is a communication designed to give the reader as true and fair a view as possible of the results and the financial position of the undertaking concerned ... information about the effect of inflation is a necessary ingredient of that communication (Slimmings 1974, 212).

This realisation brought general purpose financial reporting and the accountability of the accounting profession into question. As a profession, and by virtue of its own propaganda, for example, the conceptual framework, accountants are seen as being accountable to the community at large, with the objective of reporting vital economic information:

General-purpose financial reporting focuses on providing information to meet the common information needs of users who are unable to command the preparation of reports tailored to their particular information needs. These users must rely on the information communicated to them by the reporting entity (AARF 1997, 5).

Furthermore, it is stated that this accountability is discharged through general-purpose financial statements which provide a mechanism to enable management and governing bodies to discharge their accountability (AARF 1997, 7).
However, this accountability has been jeopardised in the opinion of some by inflation and the subsequent measurement-dilemma, because it is considered the objective of providing useful information could not be fulfilled under the historical cost method. The traditional historical cost method was being challenged and measurement in accounting was being looked at from a perspective of uncertainty but for the dominant minority (AARF) it was from a perspective of what had to be, regardless.

The Search for an Alternative Method of Asset Measurement - A Resemblance to The Four Moments of The Translation Process of Power

The following section will trace the activities undertaken by the AARF during the 1970s in relation to the issue of measurement. It will be argued that the only solutions sought were those which the dominant minority, namely the AARF, saw as necessary. A strong focus will apply to the Foundation and its needs, not just to obtain power but also to maintain it. It is in this chapter that Lees' (1990, 189) concept of "doing nothing" is substantiated in relation to measurement. The following discussion will demonstrate that much of what was done by the AARF was done in order to accommodate the needs of the Foundation rather than with a view of providing useful information in financial statements. In other words, the Foundation's answer to the persistent problem of measurement in accounting was little more than a self-serving smoke
screen. This was a ploy used to give an impression that the AARF was responding to the financial crises in the interest of improving financial reporting. The reality is, however, that no progress was made towards improving accounting, only in enhancing the accounting profession's and/or the AARF's status in the community.

The extent with which accounting information could be misstated as a result of utilising historical cost became evident after the corporate collapses of the 1960s. The postmortems of a majority of collapsed corporations found that many of the assets owned by these corporations were recorded at a much higher value than what they were really worth. With this revelation came the call for a re-examination of historical cost, as it was claimed that

historical cost accounting serves no meaningful purpose and must be replaced by a system of reckoning that gives contemporary information (Australian Financial Review 20 January 1965, 3).

Given such claims and criticism, the newly formed Research Foundation, with the support of the Society and Institute, set out on a journey to answer the calls for help, or so it was thought, as a more appropriate method was being sought. The measurement journey has proven to be a circular one. Well over three decades later, no real progress has been made in terms of a definitive answer to the measurement question.
A Problem Defined and A Profession Enroled

Through accounting literature and the use of accounting discourse, the accomplishment of the first moment of translation, that of problematisation, was possible. Although the inadequacy of historical cost was a major dilemma facing our overseas counterparts, it was not until experiencing double-digit inflation (during the early 1970s) that Australia too became engrossed, marking the beginning of the moment of problematisation.

Once the problem was defined, it was necessary to convince those affected that the problem was serious and that a solution had to be found, at the same time persuading affected actors that the AARF was the only group able to effectively search for an adequate solution. The activities undertaken by the professional bodies from then on, throughout the 1970s, constituted the moments of the translation process, as the profession sought to maintain its dominant position.

Once identified, the AARF continued to portray itself as an agent of public interest, whilst continuing to define the problem. To do this the Foundation had, in 1967, commissioned a survey requesting opinions on several questions relating to the purpose and limitations of financial reports. The AARF publicly professed that the aim of the survey was to help the Foundation resolve the problem of inadequate accounting methods and financial reports. By undertaking this survey, the
Foundation endeavored to ensure that the business community acknowledged the problem of measurement and at the same time being, perceived (the AARF) as an indispensable agent of the public interest.

One hundred and sixty four responses were received in reply to the survey. The respondents were made up of auditors, accountants in public practice and those working for large corporations including managers, directors and secretaries. Whilst some problems of financial reporting were attributed to interpretation, a majority of respondents saw the adoption of unacceptable practices and the variety of generally accepted accounting principles undertaken being the greatest problem (Australian Accountant 1968,388). In conducting this survey, the second moment of translation, interessement, had been entered. For the Foundation had made members of the business community aware that a problem existed and that it had to be attended to.

As the problems of asset measurement became obvious, calls for improved methods to deal with the change in monetary value were heard. Survey respondents were more than aware that the problem existed and that it was affecting the accuracy of financial statements. It was concluded that

the dominating criticism of contemporary financial statements ... emphasised by businessmen and accountants alike, is the failure of legislature and the accounting profession as a whole to cope with, or even recognise in practice, the difficulties that arise from the inflation of the currency (Australian Accountant 1968, 394).
Numerous respondents had put forward the recommendation to issue supplementary statements using current values rather than the inadequate method of historical cost. This is but one example of such statements:

Supplementary statements showing assets and liabilities expressed in constant money value dollars may be published; or the basis of accounting could be changed from historical cost to current values. This would give a more realistic picture because, despite the imperfections in the procedures to achieve this object, current value statements would be more meaningful than they are at present when they are based on historic cost which is completely wrong (Australian Accountant 1968, 395).

With the realisation that a solution had to be found the AARF, as self-proclaimed agent of the public, continued to undertake activities constituting the moments of problematisation and enrolment. The AARF endeavoured to convince the actors within the framework that only the AARF could develop a viable, marketable and credible solution. However, the AARF may not have been as devoted as it claimed to finding an alternate method of asset measurement. It appears there was a divided agenda between measurement and the need for statutory control. Archival research has revealed that at the time the two accounting bodies concluded
that it is in the interests of the community that a professionally qualified accountant should be recognisable and clearly discernible from a person who may hold himself out to be an "accountant" but who has insufficient training or experience to enable him competently to discharge the duties and responsibilities which may be entrusted to him (Archive File 166, 1972).

Solving the measurement issue would serve to promote the call for statutory control for the accounting profession. If the AARF could demonstrate its ability to solve complex and controversial problems, it would be better equipped to enrol actors into the belief that the AARF was the only group able to keep a watchful eye over accounting standards because only highly qualified accountants provide the highest quality financial information to prescribe standards of professional integrity and ensure that members maintain such standards (Archive File 166, 1972).

Possibly, and quite mistakenly, the AARF appears to have thought that it had succeeded in defining the problem and persuading the business community that work was being undertaken to find an alternative method to historical cost.

the great majority of groups were of the opinion that the profession is presently moving away from historical cost accounting (Archive File 6, 1973).

Thus the profession had, by 1971, moved into the fourth moment of translation, mobilisation, whereby the activities of the AARF were directed towards ensuring that the interests of the profession, the AARF and the business community were fixed. In other words, it was
accepted that a problem existed and that a viable solution was being sought and implemented by the AARF.

The Moment of Mobilisation Threatened by Dissidence

Much of the mobilisation saw work being conducted based on overseas developments and applying these developments to Australia. The AARF relied heavily on a discussion paper and fact sheet on inflation accounting that was published by the Institute of Chartered Accountants in England and Wales in 1971 (Archive File 3, 1971). This fact sheet reiterated the need for better measurement methods, arguing that the accounting profession was the group that would best develop and implement the solution:

It is hoped that the better measurement and reporting that would result from the existence of such a practice would increase both the awareness of the need for, and the use of the advise to management and others that the accountant can provide (Archive File 3, 1971).

Continuing with the translation process, the AARF was once again ensuring that it was understood by all that it was the indispensable actor in this scenario and Current Purchasing Power (CPP), the alternative method favoured by the AARF, was the indispensable solution.

The isomorphic character of the AARF began to shine through slowly as the Foundation moved towards supporting ideas and methods that were endorsed overseas. In "finding" a solution, the Research
Foundation was content with following the lead of overseas countries, often delaying work on the topic and the proposed research project on Current Purchasing Power until overseas developments could be adequately assessed.

It would be wise to wait and see the results of the research being undertaken by Overseas Institutions (Archive File 4, 1971).

So strong was the AARF's isomorphic nature that it deliberately moved towards adopting courses of action similar to those adopted overseas. In fact, in 1973, it was suggested that an Exposure Draft be developed in Australia along the same lines as ED 8 which was developed in the United Kingdom (Archive File 5, 1973). Whilst the AARF was eager to ensure that it possessed domination to control what would be developed and implemented, it also did not wish to travel too far away from the happenings overseas, reluctant to move ahead, preferring to wait for the lead from overseas. Perhaps believing that greater support would be received by the community if it were to adopt what had already been adopted elsewhere.

It appears that the profession's procrastination and high rates of inflation prompted the then Federal Treasure, the Hon. Mr Crean, to publicly appeal to the profession to find and implement a solution as soon as possible. Arguing
that high rates of inflation had disturbed traditional accounting methods, making it difficult to accurately evaluate financial data. Mr Crean urged professional bodies to seriously get down to the task of deciding what should be done to meet the problem (Melbourne Age 1973).

Whilst the profession had obviously been successful in being perceived as the only group able to find a solution up until that point in time, it had actually been unsuccessful in finding a solution.

In June 1973, a meeting of the Accounting Auditing and Research Committee, an organ of the AARF, was divided as to whether or not recommendations similar to those made in ED 8 were applicable to Australia. Whilst a majority believed that adopting CPP as put forward in ED 8 would be workable, there were some skeptics who argued that doing so would not be ideal for Australian economic conditions, as there was no guarantee that accurate and usable information would be reported, particularly as firms were

affected not so much by changes in prices in general as they [were] by changes in prices of the commodities in which they deal. There is no guarantee, therefore, that the application of a general price index to the specific situation of a firm would produce meaningful results (Archive File 7, 1973).

Furthermore it was argued that misleading results would be obtained which would fail to achieve the objective of accurate financial reporting, especially if
firms deal with special commodities rather than with all commodities in general, the price level adjustment may produce misleading results when the prices of the commodities in which the firm deals change differently from the general price level. It is not only the revenue statement that may be misleading but also the balance sheet and the rate of return (Archive File 7, 1973).

Given the extent of criticism, dissidence began to play a role in the translation process of power as critics became predators of the AARF, successfully hindering the completion of the translation process and threatened the dominance of the AARF.

In a bid to demonstrate its ability to deal with the measurement issue and, thereby, the appropriateness of the AARF's domination of accounting matters, the committee resolved that inflation accounting was desired and the proposal to adopt ED 8, CPP, as in the United Kingdom, was to be supported. As concluded by Kenley, the then Director of the AARF

I assume from the previous discussions that the exposure draft that the Standards Committee propose to issue is related to the English Statement. Whilst not necessarily agreeing with the English statement I feel strongly that we have little alternative if we are to achieve any progress in the short run (Archive File 167, 1974).

With this resolution, the AARF moved a step backward into the third moment of translation, enrolment, in order to ensure that any dissidents that may have existed did not adversely affect the situation.

The meetings held by the AARF at the time centered largely on
discussing how the accounting profession in the United Kingdom dealt with adverse critics, who had the ability to hinder the progress of ED 8. Referring to extracts from reports prepared by the professional bodies in the United Kingdom, the AARF realised that its priority was ensuring that change was accepted.

the great majority of opinion ... was that there was a need for change to some method of accounting for inflation: the controversy was however how this would be best achieved in the Australian situation. This is the problem to which the Accounting and Auditing Research Committee could now direct its attention (Archive File 7, 1973).

The AARF realised that, if change was to be made, it would have to re-assure those affected that there would be no adverse outcomes if an alternative method was adopted. For example, the financial reports prepared under an alternative to historical cost could be interpreted by trade unions and employees, as an admission that large profits were made, having a resultant effect of an increase in wage claims, and make corporations reluctant to adopt the alternative measurement system. With this in mind, the AARF gave special consideration to how its counterparts in the United Kingdom dealt with such threats and how this knowledge could be used in an Australian context. The AARF concluded that, whilst a change to an alternate method of asset measurement could
create disquiet in the minds of the trade unions... it was essential that efforts should be made to allay this disquiet. The process could be valuable in convincing employees that companies were not making inordinate profits and that there must be restraint in making wage claims (Archive File 7, 1973).

The greatest challenge faced by the AARF, however was convincing corporations that a change was needed, irrespective of what method was proposed.

the most severe difficulty is almost certainly that many companies may not be at all willing to agree to inflation accounting whatever the proposed method may be (Archive File 7, 1973).

In order to counter this possible unwillingness of organisations to change methods, the profession would have to market carefully the proposal in an effort to obtain substantial support. The AARF proceeded to enrol the acceptance of all those affected by the issue whilst ensuring that the project was protected from all possible predators. The enrolment process embodied a program of explanation to mitigate the major difficulty, the best course would seem to be a careful and protracted program of explanation - both to companies and unions (Archive File 7, 1973).

This program of explanation or, perhaps more appropriately, education, could be seen as further evidence of the indispensability of the AARF to the community. However, implementing such a program would further impede progress in resolving the measurement issue.
PREDATORS AWOKEN

Whilst the Research Foundation debated as to whether or not a heavy reliance should be placed on the work already completed overseas, the business community became restless in the wait for a solution. Criticism was once again heard as the AARF's progress was questioned. The AARF's lack of progress put at risk not only the slow healing reputation of the profession, but also its status quo.

One of the first of such criticisms was put forward in a working paper prepared by Professor Ray Chambers, who would become one of the greatest opponents to the AARF and its work. The paper, Research Activities of the Society (Archive File 8, 1974), critiqued the progress or lack thereof, of the research activities of the profession, including the activities of the AARF. The report outlined the deficiencies that may have hindered adequate development of research projects in general, failure to consider measurement being one of them.

Professor Chambers concluded that there were many reasons why there seemed to be a lack of development in issues such as measurement. The most important hindrance was the tendency to take on too many

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1 These were critics who, according to the translation process, were seen as predators, as they threatened the success of the translation process of power and ultimately the AARF's dominance.
projects, with the result that none of the projects was adequately addressed. Professor Chambers also argued that much of the completed and subsequently published projects were internally inconsistent and often set aside vital questions to be dealt with at a later period. Many statements, according to Professor Chambers, were inconsistent and often in contradiction to each other (Archive File 8, 1974).

With various projects being undertaken, it would often mean that there were various project committees that dealt with specific problems and hence specific projects. The fact that inconsistencies were evident highlighted the absence of a framework outlining agreed definitions to which the various committees could make reference. Directly related to this problem of inconsistency was the problem of procrastination. For example, the answering of questions during meetings was often delayed for "another time" or, it was often promised that the issues in question would be addressed in another statement. Professor Chambers argued that such a practice was adopted because many of the questions were in direct conflict with the statement that was being prepared. Therefore, ignoring these questions eliminated the problem.

Another hindrance to the progress of research that was outlined by Professor Chambers related to the reason why most projects were undertaken. Chambers argued that justification for undertaking many of the projects was seldom made clear by the AARF. This, according to
Chambers, was attributed to the fact that the Australian accounting profession had placed a heavy reliance on what was occurring overseas. Events overseas greatly influenced the direction that the profession would take in Australia.

the work done, taken as a whole, suggests that some matters have been taken up in Australia simply because some foreign professional body has pronounced on it (Archive File 8, 1974).

Furthermore, Chambers argued that many of the suggestions that were put forward by the profession were greatly influenced by the views or opinions of those whom the professional bodies considered elite. The AARF, as will be demonstrated, continually tried to cover up the extent of imitation that was undertaken by them in the preparation of certain projects, appearing to ignore criticism by outsiders if it was seen as a threat to the proposed statement or draft.

The idea of exposure is presumably to allow others to judge the merit of the proposal. But no such judgment can fairly be made if strongly supported and counterargument and their sources are not disclosed. Relief from the necessity of doing this enables the authors of drafts and statements to avoid the appearance of merely copying others (which is often the case) and the appearance of disregarding whatever they choose. Having engaged in discussions of the drafts and other statements of U.S. and U.K. bodies over many years, I am very well aware of the amount of copying done...frequently the arguments against the proposal of a draft or statement are very curtly dismissed (Archive File 8, 1974).

Of this Professor Chambers had first hand knowledge as a majority of
his opinions and questions were ignored by the AARF. Professor
Chambers never received a reply to the numerous correspondence sent
not just to the Australian Accounting Research Foundation, but also
directly to the Society and Institute (Interview with Professor Chambers,
1998).

Furthermore, Chambers disagreed with the process whereby responses
received on proposals were never made public. Responses were not
immediately made public, regardless if they were favourable or
unfavorable. In addition to this, it was not generally known whether
any changes were made to the proposal after submissions were
received. To Professor Chambers, this proved to be a great hindrance to
development, as it did not motivate members to respond, which would
only cement the AARF's monopoly, a monopoly that was already being
protected by the exposure draft process, according to Chambers

Whether the exposure draft system is intended to
get access to the wisdom of members, or to
close subsequent criticism on the ground that
everyone "had his chance" is unknown. But in
practice, since what occurs after exposure is not
disclosed, the latter seems to be its effect. The
system has the appearance of drawing on diverse
experience and wisdom but lacks the substance
(Archive File 8, 1974).

Professor Chambers argued that all too often issues were left unresolved
and questions remained unanswered whilst less complex and
controversial problems were dealt with. The unstructured way with
which vital issues were dealt, did little to ensure that adequate
development took place.

The above problems highlighted by Chambers all played a part, collectively, in the reason why the accounting profession has been seen as doing nothing. Very little beneficial progress was made, as most proposals were considered to be either inconsistent, contradictory and inconclusive, or detrimental to the public interest, but beneficial to maintaining the Foundation's status-quo (Archive File 8, 1974).

The research activities undertaken by AARF, the secrecy and the half-addressed solutions are all part of a wider framework that assisted it in obtaining and maintaining its domination. By taking control over the solutions that were to be implemented, assisted by accounting discourse, the AARF was becoming a powerful unit, one which had continually looked after its own economic–self interest. Yet claims made by Professor Chambers had the potential to severely affect the dominance of the AARF.

To respond to the criticisms made by Professor Chambers was not an easy task, for the response had to be well planned and presented. A four-man committee was set up to consider the issues raised by Professor Chambers, and develop a response. The response to Chambers was to be a public one so as to ensure that this threat to the AARF's domination was overpowered (Archive File 8, 1974).
Isomorphic Behaviour Justifying the Work of the AARF

Throughout 1974, the Australian Accounting Research Foundation continued its campaign for the endorsement of the provisional standard ED 8, which focused on accounting for inflation. Although officially no definite decision had been made as to whether or not Australia should follow in the steps of the United Kingdom, the Foundation had ensured that the benefits of adopting such a method were widely known. Archival research shows that the need to adopt what had been proposed in the United Kingdom dominated much of the Foundation's time and subject matter.

This over-zealous commitment to imitating overseas developments can be referred to as mimetic isomorphism. At the time, the AARF faced a great deal of uncertainty. On the other hand, there was a definite perception of the need to find a solution to the measurement issue but on the other hand, there was also uncertainty as to what would be the best alternative to historical cost. An easy remedy, and a less costly consideration, was to be the adoption of what had already been proposed elsewhere. This was justified on the basis that the initial criticism, which was traditionally associated with new proposals that moved away from the norm, would be minimised, the logic being that, if the issue in question was considered elsewhere, the solution must be worthwhile. It would appear that this logic had been adopted by the AARF on many occasions with the proposed suggestion to adopt ED 8
being one of them. Furthermore, the AARF had, on numerous occasions, deliberately stalled its activities awaiting the fate of its overseas counterparts, as the following extract from a letter written to Kenley by the Joint Standing Committee indicates

"my Chairman [from the Institute] suggests that it would be wise to wait and see the results of the research being undertaken by overseas Institutes (168).

It could be argued that walking in the footsteps of our overseas counterparts could prove beneficial as any potential problems with the proposals put forward could be addressed based on the results overseas. However, this was not to be the case, for despite problems being acknowledged overseas with the operations of ED 8, these were not adequately addressed by the AARF. In particular while adoption of ED 8 was suggested and lobbied for by the AARF, the proposals put forward in ED 8 were not adequately tested nor was there any attempt to verify that the proposals were workable. Rather, there was a greater focus on making the proposal appealing, something which was accomplished through the creative use of accounting discourse.

With the Foundation's motives becoming apparent, criticism once again began to mount, as the AARF was not seen to be undertaking its duties adequately. Professor Chambers was once again one of the first to lead the assault on the AARF. According to him, the Foundation was doing exactly what was being done in the United Kingdom. First, a strong
focus was placed on the provisional standard advocating its merits and its advantages. The persuasion was then taken a step further by having organisations apply the proposed method to their financial statements, on which the financial press would then focus.

So much attention has been given here [Australia] to the English statement that it has already developed a "head of steam" before any local statement has been issued on the matter. And in the Financial Review of Friday last there was a long list of companies to which a Sydney stockbroker had applied the method. All this activity before local discussion does create the impression that an Australian version of the process is on the way, whatever its faults may be. And the proposal to publish an Australian version will increase the impression. No objection could be taken if the English proposal (and the American, before it) were free of avoidable faults. But it is not (Archive File 16, 1974).

In essence, through accounting discourse, the profession was rallying support for this proposed method even before further work or any decisions were made. Doing this enabled the Foundation to gain strong support for the method prior to its being accepted. Possibly ensuring that when a method was chosen, support for its implementation would already be in existence, minimising the need to combat criticism and allowing the provisional standard ED 8, to be readily accepted.

Professor Chambers argued that the AARF defended the adoption of ED 8 on the basis that it was

the only proposal which can be readily put into publishable form (Archive File 16, 1974).
The translation process was being used to ensure that the adoption of the United Kingdom's provisional standard ED 8 was seen as the only available and credible solution. To this Professor Chambers claimed that a political agenda must have motivated the implementation of ED 8, particularly as its adoption was seen as important and all other suggestions made from the business and academic community, including that of Professor Chambers' were ignored. As concluded by Professor Chambers in a report which he prepared

I can only suppose either (a) that those who say that only ED 8 is readily reproducible do not know what else is available, or (b) that there are other undisclosed reasons for giving publicity only to one type of proposal... it seems that we are just as addicted to supinely following others as others expect us to be (Archive File 8, 1974).

During the earlier months of 1974 other members of the professional community echoed the sentiments expressed by Professor Chambers. In October of that year, Heeley, a one-time member of the Foundation's Research Committee, voiced his concern for the adoption of the English Statement. In a letter written to John Kenley\(^2\) (Archive File 9, 1974), Heeley identified the potential drawbacks of adopting ED 8 but conceded that there was very little choice if any short-term progress

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\(^2\) It is interesting to note that whilst both Kenley and Heeley were active in the research of the AARF, neither had any qualifications as a researcher (Interview with Professor Chambers).
was to be achieved. Heeley's greatest concern was that too much time had gone by without any achievement. In order to save some time, Heeley believed that one exposure draft, rather than several, should be issued. Furthermore, he advised the Foundation that it would be preferable if a solution was adopted even if it was not the ideal solution. The rationale being that it would be better to adopt a solution and be seen to have progressed, rather than wait to implement the ideal solution and be seen as progressing very little. As the following extract from a letter written in 1974 reveals:

I consider the profession has procrastinated long enough ... To me we are about to be led into the same confusion as appears to have been achieved with equity accounting ... The Australian profession in an attempt to improve the position has still achieved nothing (Archive File 9, 1974).

By late October, the dominant stance of the AARF was threatened, with the possibility of government intervention as the validity of the AARF's actions in relation to inflation accounting were questioned.

A Senate session was devoted to the problem of inflation. One of the greatest economic effects outlined was that of unemployment. Under the then existing situation it was claimed that profits were highly overstated eventually resulting in a situation where a shortage of cash would see many unable to carry on with business therefore resulting in unemployment. Overall, a shortage of capital would result. Although the problem of inflation accounting was not restricted to Australia,
Senator Murphy recommended strongly that the accounting profession come up with a solution, with the Senator concluding that

all over the world these problems are being struck and attention will need to be paid to them. It would be helpful if those people who represent the professional bodies in Australia, particularly in the accounting and auditing fields, were to come up with some suggestions. Perhaps they have done so in other countries (Archive File 10, 1974).

Failing this, Senator Murphy, during Senate question time in 1974 urged the government to take an active role in solving the problem, claiming that

the main brunt of what the Honorable Senator is putting is that some attention ought to be paid by the Government to the special problems being created by inflation and the simple changes of values which give the appearance of profit when in fact there is no real profit. I will bring that to the attention of the Treasurer (Archive File 10, 1974).

It would appear that parliamentary statements such as these were construed by some as threats to the overall dominance of the AARF, particularly in determining appropriate accounting practices. For example the financial press reported that the Federal government was both willing and able, based on overseas trends, to step in and help resolve the crisis

The Federal government will consider forcing professional bodies to use an inflation-adjusted method of accounting (The Australian October 25th 1974, contained in Archive File 11, 1974).

To the government inflation not only meant capital shortage but
also a misrepresentation of accounting entries in order to evade tax. The Senator made this clear in an article published in the Australian

the biggest problem in the Australian economy today is the grave shortage of capital. This is creating a difficulty with accounting entries because many firms were misrepresenting entries to escape tax (*The Australian* October 25th 1974, contained in *Archive File* 11, 1974).

The steps taken by Senator Murphy and the threat of government intervention had begun to hinder the translation process. Whilst seemingly successfully implementing the moments of the translation process, the government now proved to be a predator having the potential to disrupt the translation process of power. The profession's self-regulated status was in danger and the enroled actors of the framework began to sense this. Hence, despite the need to implement inflation accounting techniques, it was expected by many that a potentially harmful resistance from both the private and public sectors may await the plans of change.

This uneasiness with other actors was evident in the various letters sent to the AARF from corporations, many of these letters expressed concern about the outcome if the government was to step in and introduce legislation for compulsory use of inflation accounting. Many urged the AARF to make contact with government and ensure that the threat was overcome by demonstrating to this potential predator that the accounting authorities had the answers and could contribute to
rectifying this problem. The following is one example of the letters received

These statements lead me [Harry Levy from Bradmill Industries Limited] to suggest that the Accountancy Research Foundation might well prepare itself to initiate or to recommend to the national and general councils of the professional bodies that approaches be made at an early stage to assess the veracity of these statements and, if appropriate, make contact with the Senator in order to ensure that the work we are doing can influence any approach which may be taken at government level (Archive File 12, 1974).

In true tradition, when a crisis calls the profession responds with activities closely resembling the fourth moment of the translation process of power, that of mobilisation.

**Mobilisation: An Immediate Response to Criticism**

By the end of 1974, two official exposure drafts were issued by the AARF. Both pertained to alternate methods of accounting for inflation. The first, *A method of accounting for changes in the purchasing power of money*, focused on the use of a general purchasing power index. This method, later referred to as CPP, proposed to adjust conventional financial statements, prepared according to historical cost, using a general purchasing power index. The Foundation acknowledged within the exposure draft that whilst this may not have been the most adequate method available, it was, according to our overseas counterparts, the most practical to use. The second exposure draft was
A method of current value accounting. Whilst CPP looked at general price change, this exposure draft, as the title would indicate, was based on current value accounting, focusing on specific price change, which in effect, reported assets at their replacement prices.

A third exposure draft submitted to the Foundation was to be ignored as an alternative method of inflation accounting. Entitled, Accounting for inflation, the exposure draft advocated the use of Continuously Contemporary Accounting (CoCoA). Unlike the exposure drafts issued by the Foundation the method proposed by Professor Chambers took into account changes in particular prices and in the general level of prices. However, conflicting with the perceived ideal that the AARF had set, the required support was not received by the Foundation and The University of Sydney subsequently published the draft.

In the submissions received by the Foundation on the official exposure drafts issued, a majority of submissions favoured CVA, as many believed this to be a significantly more workable method than CPP. This therefore changed the focus of the AARF from CPP to CVA, as was also the case overseas.

By mid 1975, after several preliminary drafts were issued, the pressure to have a workable exposure draft issued and implemented was evident. In a letter written by the then Chairman of the Australian Accounting Standards Committee, Mr John Balmford acknowledged that the
committee

have been under considerable pressure to issue an exposure draft on this subject [inflation accounting]...while I have no doubt that the final version will not entirely meet with your approval, I hope you will agree it will be a useful first step (Archive File 13, 1975).

Comments such as these reiterated the AARF's fear of predators, causing an immediate movement towards mobilisation. The steps undertaken to combat the threat of government intervention had to be a ground-breaking event in the mobilisation moment if it was to succeed.

Referring to many letters written at the time, it became obvious that the AARF's push for Current Value Accounting (CVA) as the alternate method to historical cost, was being accepted by many. If success was to be assured, the AARF had to ensure that current value accounting became favoured to the point that historical cost would be a distant memory, and to an extent this became reality. The move towards CVA was declared to be the first of its kind, thus requiring time to be taken to ensure that what was to be issued was done correctly (Archive File 14, 1975). In fact such was the influence that two large Queensland corporations initiated an interest in establishing a method of time-value accounting (Archive File 15, 1975).

Australian Consolidated Industries (ACI) was one such organisation that applied current value accounting, and in doing so substantially altered the organisation's financial position from a profit to a loss.

Whilst not all corporations began to implement current value accounting immediately, an impact was made on the business community which became evident either directly or indirectly with the issue of inflationary accounting and asset measurement. The AARF had successfully achieved the moment of mobilisation. However, even at the moment of mobilisation, there is the danger of predators, and it was not long before once again the AARF would begin to move backwards in the translation process, as predators within the framework began to question the suitability of the solutions put forward. ACI's exercise brought home the fact that a solution had to be found.

Once the preliminary exposure drafts on CVA and CPP had been issued, and further discussions had taken place, it became common knowledge that the AARF failed to publicly disclose all possible alternate methods that had been proposed by choosing to omit Continuously Contemporary Accounting (CoCoA) prepared by Professor Chambers. The need to ensure that all suggestions were made known to members of the accounting profession was voiced in several submissions made to the AARF, all of these submissions called for the official publication of CoCoA (Archive File 18, 1975).
To many, it became difficult to comprehend that such an important decision could be made without all possible avenues being considered. One respondent argued that

before the important decision on adoption of a method of accounting for inflation is made, the Institute and Society should issue an exposure draft on accounting for inflation using resale prices ... members of the profession should be aware of the accounting systems available, before a decision which will have far reaching effects, is made (Archive File 19, 1975)

Evidently, the AARF was exercising its domination and determined what would become available to members whether appropriate or not. The apparent arrogance of the AARF proved insulting to those who voiced their criticisms to the professional bodies

I refer to [the request] for the publishing of a preliminary exposure draft on the [CoCoA] method of accounting for inflation...I believe that there are no plans for such an exposure draft to be published, and that Professor Chambers has had to arrange the publication of his own exposure draft...May I ask why? Surely a topic as important as this one should have all of its aspects exposed for discussion...May I also ask whether, in their wisdom, the members of the Australian Accounting Standards Committee decide what is and what is not fit reading for Institute and Society members (Archive File 20, 1975).

To this, members of the Australian Accounting Standards Committee responded by claiming that Professor Chambers had been invited to publish an article on the issue as it was thought best by the committee that a third exposure draft not be issued.
The Australian Accounting Standards Committee, which is comprised of senior members in commerce, public practice and academics, did not believe that a third exposure draft dealing with this approach should be published. It is the policy of the Society and the Institute to ensure that members have the opportunity to evaluate all approaches to the problem of accounting for inflation and consequently, Professor Chambers was invited to prepare a special article on this topic for inclusion in the December issue of the Australian Accountant (Archive File 21, 1975).

One of the greatest threats to the AARF's translation process once again proved to be Professor Chambers, who strongly believed that the suggested solution of CVA was not appropriate. He argued that the alternatives suggested by the AARF were not methods of inflation accounting but simply ways of coping, partially, with the problem. To Chambers both alternatives, namely Current Purchasing Power and Current Value Accounting, were lacking the necessary attention that was required to be devoted to the issue of price change, both specific and general. Furthermore, Professor Chambers argued that the calculations necessary under both alternatives were based on guesswork and therefore failed to meet the requirements of providing a true and fair view (Chambers 1975).

Although the comments made by Professor Chambers were publicly dismissed, within the Foundation the extent of their possible implications were acknowledged. Members of the Administrative Sub-Committee, within the AARF, were supplied with a copy of a prepared reply to the criticisms made by Professor Chambers. After lengthy
discussions between members of the profession, it was decided that it would be beneficial if an article on CoCoA prepared by Professor Chambers was published in the *Australian Accountant*. In addition to this, it was also thought best to publish the prepared response to the criticism voiced by Professor Chambers. This was done in the hope that it would satisfy the Professor and he would no longer resort to criticising the proposed alternate methods of inflation accounting

The advantage of publishing Ray's article is that he cannot then claim that he did not receive reasonable publicity of his view (*Archive File 17, 1975*).

Perhaps in doing so, the AARF wanted to give the impression that the issue was being adequately dealt with and at the same time, discrediting critics such as Professor Chambers. These activities in turn could be seen as providing a smokescreen which would protect the AARF from future backlash and allow it to continue on the path of domination.

**AS A SOLUTION WAS SOUGHT, THE MOMENTS OF TRANSLATION CONTINUED**

By the beginning of 1976 there had still been no official decision made as to the course of action that would be undertaken in relation to inflation accounting. The lack of a decision caused many to become dissatisfied with the little progress made by the AARF. News that the United Kingdom was to implement the suggestions of the
Sandilands Committee and adopt Current Cost Accounting (CCA) only served to add to the hegemonic struggle between the AARF and those who threatened its domination.

With Australia obviously falling gravely behind our counterparts, speculation was strong that it would not be long before Australia, too, implemented such a decision. After all, the discussion period for both exposure drafts had reached an end and a decision would have to be made (The Australian 10 January 1976). However that was not to be. Although it was stated that a strong preference for CVA existed, as opposed to CPP, it was made clear, as in the United Kingdom, that even though there was a preferred method, the formalities of implementing an alternate method were still some time away (The Australian February 10 1976).

Before a method was to be decided upon a special hearing was to take place in both Sydney and Melbourne, which was to concentrate on the various methods of inflation accounting. The first of its kind, the hearing, made up of a specially selected panel, was to listen to oral presentations of submissions in order to ask further questions and gain a better insight into the topic. Once again, the domination of our accounting authorities was apparent in the way in which the hearings

3 All listed companies in the United Kingdom were called upon to publish inflation-adjusted accounts in addition to traditional historical figures.
were conducted. For, whilst the selected panel was able to put forward questions to the presenters, it was not deemed appropriate for any questions of general discussions to be posed to the panel. The hearing was to be controlled by a chairman who determined the length of time for each presentation (Archive File 22, 1976).

The hearing could be seen as yet another way of enrolling actors into the ideology of the AARF. For if large and influential organisations would bring positive input to the hearing, skeptics may have been convinced to undertake a new and alternate method of asset measurement. However, not all actors played their part accordingly. For instance, members representing BHP chose to remain silent at the hearings, officially distancing themselves from the submission made by then principal accounting officer Mr Heeley, who at the time of making the submission, was also a member of the profession's research committee.

Holding rank as Australia's biggest corporation, it was hoped that BHP's approval of CVA would play a significant role in the revolutionary change from historical cost to current value accounting. Much to the dismay of Institute President, Mr Jamison, BHP made no positive statement in regards to the implementation of CVA, other than simply stating that as an organisation, no commitment was made by the company to implement the alternative method suggested by the profession (Archive File 23, 1976). The translation process was once again threatened with the existence of groups and individuals that,
through their actions or words, helped hinder the success of the task at hand, implementing an alternative measurement method.

With an outcome that was not desired, the Australian Accounting Standards Committee realised that urgent action had to be taken if it was to remain dominant in the inflation accounting battle, declaring that

the hearing of oral presentations has made it clear that there is an urgent need to publish as soon as possible a definitive pronouncement setting out the accounting method selected as a result of evaluating the comments on the two preliminary Exposure Drafts (Archive File 25, 1976).

During the hearing, concerns were expressed at the lack of progress that had been made when it came to dealing with inflation accounting, with one presenter declaring that

conventional accounting needs to be evolutionary rather than revolutionary (Archive File 24, 1976).

With the favoured method at the time being CVA, coupled with the need to act quickly, the AARF was content to implement a method which was straightforward and in no way complex. The concept and terminology of the proposed method was to be of a similar nature to that used in the Sandilands report. As it was

considered desirable to opt, at this stage, for a straight-forward current value approach, ignoring for the time being the question of accounting for changes in the general price level (Archive File 25, 1976).
The justification for such action was based on the need to ensure that any method that was implemented was quickly accepted and adopted by those most affected by the dilemma.

The urgency of bringing out a standard in order to achieve, as soon as possible, positive action by companies and others (Archive File 25, 1976).

To ensure unequivocal support and combat potential resistance, it was suggested that a simplistic method be adopted, as the implementation of a complex method could have proven to be a hindrance.

The danger is that if a more comprehensive method were proposed immediately, it could prove self-defeating, due to the resistance it may create both from accountants and the business community (Archive File 25, 1976).

Furthermore, the Accounting Standards Committee considered that the task of educating not just accountants but the wider business community to use a more comprehensive method would simply be too great.

The impossibility of adequately educating accountants and the general public in the understanding and use of the new method, unless the method is kept simple for a start (Archive File 25, 1976).

The Committee was content with issuing a standard of a less complex nature at first, leaving itself room for later changes, once the initial standard was accepted, as it was agreed that
a standard developed on this basis would in no way preclude the introduction, at a later stage of accounting for changes in the general price level as an additional feature, should this be considered desirable or necessary (Archive File 25, 1976).

With further talks on adopting a method similar to that adopted in the United Kingdom, members of the accounting profession and wider business community began to question the motives behind the implementation of CVA. Some members were of the opinion that implementation of a CVA method was driven by the advantage of a tax reduction (Archive File 26, 1976). The AARF responded to this criticism in the usual manner, claiming that there was a misunderstanding of the facts, which made the criticism unfounded in the eyes of the accounting authorities.

By late February a progress report was prepared as to the effective replies received, overall, on the subject of inflation accounting. In total, one hundred and ninety nine replies were received. The majority (totaling thirty three percent) of replies was received from members in

4 Upon examining the documentation it was made evident that an error was contained in the report itself as to the number of replies received, in the records of the Australian Accounting Research Foundation. Whilst Table 1 of the report had identified two hundred and two replies, the note below the table identified only one hundred and ninety nine respondents, as did Table 2. For the purposes of this study the number of respondents received will be taken to have been one hundred and ninety nine.
public practice. Industry and commerce were the next highest respondents with thirty two percent, whilst only seventeen point five percent of responses came from academics. The rest of the respondents were made up of unclassified individuals, a group termed "mixed" and government. From the responses received it was evident that a majority supported CVA but did so with some qualifications (Archive File 27, 1976).

Although the AARF had prepared two reports summarising the findings of the hearing committees in both Sydney and Melbourne by mid May, these reports were not immediately made public. During the hearings, the committee heard a number of arguments against the implementation of current value accounting. One of the arguments echoed many times was that of subjectivity. It was argued that the implementation of current value accounting meant that a great deal of subjectivity would be introduced into the measurement process. However, these criticisms were dismissed by the AARF, which claimed that the use of historical cost invoked a great deal of subjectivity, a problem that would be improved upon by the adoption of CVA. Another drawback of implementing CVA was seen to be the cost factor. Numerous submissions questioned the cost of implementation. This criticism was ignored by accounting authorities who argued that the issue of cost should not be considered when it came to determining the validity of current value accounting.
The impact, which the implementation of CVA would have on society was also questioned. Claims were made that the stock market would suffer if current value accounting was adopted. The reason was that the method would not be understood by non-accountants and would also be accompanied by decreases in profits. The accounting authorities were adamant that CVA was no more a deterrent than was the use of historical cost, as misleading reports resulted from the traditional historical cost method.

Arguments continued as more submissions were heard and more opinions voiced. Some argued that the calculations were too complex whilst others argued that, as an inflation accounting method, current value accounting did not adequately deal with the general effects of inflation. Current value accounting was not considered appropriate, as it was not an ideal method that could have been adopted by all types of organisations, particularly small business, which saw CVA as a hindrance. Questions also arose as to the ability of CVA to value appropriately custom-built assets, an issue ignored by the method proposed.

There is evidence that there was a continual struggle between the AARF and critics from the business community. The struggle to gain acceptance and hence domination for the method advocated saw accounting discourse play a part in the hegemonic struggle. After much public discussion of the Sandilands Report, current value accounting
soon became known as Current Cost Accounting. In order to increase the chances of success in Australia, it would appear the profession adopted an isomorphic approach and decided to take up the same terminology as in the United Kingdom, in the hope that the acceptance of current value accounting, alias Current Cost Accounting (CCA), would be stronger.

It would also appear the profession was unfazed by the fact that Professor Ray Chambers had previously called his method for inflation accounting CCA, an acronym for Continuously Contemporary Accounting. With confusion mounting as to which method was being discussed when reference was made to CCA, and the profession unwilling to budge, Professor Chambers reluctantly decided to change the abbreviated term for Continuously Contemporary Accounting, to CoCoA (Interview with Professor Chambers, 1998).

The Hegemonic Struggle Continues

By mid 1976, what had once been referred to as CVA was known as Current Cost Accounting. Despite a name change however, the comments received by the AARF continued to criticise the lack of adequate development that had taken place. The name change was also criticised, with many recommending that the name change be amended back to current value accounting (Archive File 28, 1976).

Although a third draft of the provisional standard on CCA was issued
for public response, very few replies were received. The hegemonic struggle was so great that the AARF once again displayed its dominance by deliberately ensuring that the number of responses received was minimal. This was achieved by imposing a very short response deadline for submissions on the albeit widespread distribution of the provisional standard.

Potential respondents voiced their despondency at the fact that there was virtually no time in which to make an adequate submission. Professor Reg Gynther, who had extensively replied to the second draft, was unable to respond formally to the third draft due to the time given

I intend going through these today or tomorrow for my own information, and notice that there will be no time for further comments. I think that it is a great pity that you have this time constraint (Archive File 29, 1976)

With the evident need to ensure that adequate support for the method was achieved, it can only be assumed that the time constraint was used as a convenient weapon in the hegemonic struggle that the AARF continued to face. Applying a restricting time constraint ensured that very few or no submissions would be received by the Foundation. This in turn eliminated any need for debate if no critical submissions were received, and a perception of acceptance was portrayed.

Late 1976 saw the AARF once again regain domination, as the hegemonic environment it had created was successfully maintained.
Not only were members of the accounting profession and wider business community restricted in what they thought and said, so too were members of the various committees setup by the AARF and the two professional bodies. The domination practiced by the AARF was evident in a letter written to the then Director, Bruno Feller, from a member of the Australian Accounting Standards Committee (AASC). The purpose of the letter was to record officially the member's disappointment and disagreement with the proposed statement of the provisional accounting standard, Current Cost Accounting. Claiming that there was no theoretical basis or justification for adopting such a method, the displeased member did support the concept of a Current Cost Accounting method but also believed that vital changes had to be made if the method were to adequately address the issue of inflation accounting. The proposed changes included a change to the asset valuation framework and theory, a changed capital maintenance concept and the incorporation of an altered terminology.

Despite his reservations, the member concluded that he would support the provisional accounting standard despite his concerns, as this alone would not be sufficient to change the path chosen by accounting authorities. He was convinced by the Foundation that his thoughts were that of a minority.
despite the extent of my disagreement in principle with the proposed statement, I support its issue. This is partly because I am in a minority of one in this respect, but more particularly the need for a system of Current Cost Accounting is urgent. Once the proposed statement has been issued it will have my support, and I will continue to work towards the development of additions and amendments within the AASC (Archive File 30, 1976).

By publicly claiming that support was strong for its proposal, even when evidence clearly indicated the opposite, the AARF indirectly intimidated those who thought differently. Furthermore, members were repeatedly told of the importance of finding a solution, so that many began to accept the created ideal of finding a solution, even though it may not have been the most suitable one.

Through the use of accounting discourse, those who voiced any criticisms against what was being developed by the AARF were made to feel inferior and a minority. As will be demonstrated in the rest of this chapter, the AARF, in the name of the accounting profession, did all it could to ensure that its proposal was accepted. This was yet again evidenced in 1977 when a survey was conducted to ascertain public opinion in relation to CCA. Publicly the AARF declared that a majority of respondents accepted CCA. However, after careful examination of these documents, it is revealed that this was in direct contradiction to the facts, which clearly indicated the negativity of the responses (Archive File 48, 1977).
This was not the only way that the AARF fought to combat criticism. When the AARF received letters of criticism, the receipt of these letters would be acknowledged, but a response to the content of these letters would not be made. Thus, whilst the AARF would send out an official letter of appreciation for the document received, no mention would be made as to the issues considered in the document. This type of response was evident in a letter sent to the AARF by an accounting academic, Professor Cowan, in which concern was expressed at the actions taken by the AARF. Professor Cowan believed that some of the actions undertaken might not have been in the best interest of all, but rather, in the interest of a small yet dominant group.

I am sure that while inflation is at anything like present levels some action will have to be taken, even though it may be far short of what is desirable. I am of the opinion that the profession is swayed very considerably by management views when it opts for a system of accounting for inflation...In my opinion the profession has got a responsibility which extends beyond management interests (Archive File 31, 1976).

In reply almost two months later, Feller apologised for the time it had taken to respond to the October letter, explaining his hectic schedule. Conveniently the letter of acknowledgement concentrated on this rather than on the content of the initial letter, with no reference made to the allegations put forward (Archive File 32, 1976). It was responses like these that assisted the AARF in dealing with possible predators who threatened its possessive striving for domination.
In October of 1976, the AARF issued an explanatory statement on CCA (Archive File 33, 1976), which shortly afterwards was complemented by the publication of a Proposed Statement of Provisional Accounting Standards Current Cost Accounting (Archive File 34, 1976).

The provisional standard was issued in order to introduce the method of Current Cost Accounting as an alternative to the traditional method of historical cost. It was stated, that from July 1 1977, financial statements should be prepared according to Current Cost Accounting. If, however, it was not practical to comply with the recommendations put forth in the provisional standard, then supplementary CCA information was to be provided as best as possible. Thus, whilst the provisional standard made it necessary to prepare financial reports in accordance with the Current Cost Accounting method, it also made it possible for corporations to deviate from it (Archive File 34, 1976). This in-built flexibility would seem to be aimed at substantially reducing potential backlash from concerned members of the accounting profession and wider business community.

Despite the fact that many considered the method inappropriate, the AARF chose to ignore these concerns, instead making its application as straightforward as possible in the hope that greater acceptance would be received:
While considerable pressure has been brought by the proponents of CPP and CoCoA, the AASC has been convinced that the CCA approach is the most appropriate, although individual views are still held on some variants and additions (Archive File 35, 1976).

To assure the acceptance of CCA, not only did the AARF advocate a method that was easily adopted but also carefully considered the date of its implementation. It was decided that the operative date for implementation should not be brought too close to the issue date of the provisional standard. There were concerns that doing so could cause problems and public misconceptions. Furthermore, the fact that the implementation date coincided with that of the United Kingdom was also thought by the AARF to be a beneficial factor to the program's success.

With the accounting profession moving towards the adoption of CCA, accounting authorities hailed this as a revolutionary first step (Burrows 1996, 96). Frank Clarke (1982) on the other hand, believed that the issuing of a provisional standard on CCA in Australia was influenced by two major occurrences. Firstly, and perhaps the most influential, was the handing down of the Sandilands Committee report in the United Kingdom in 1975, a year before Australia had issued its provisional standard. The second occurrence, Clarke (1982) claimed, was initiated by the Securities and Exchange Commission in the United States, which had formally put forward a requirement for supplementary current cost information to be supplied when preparing financial
reports. Both were considered to have influenced the actions of the AARF.

Moving back through the moments of translation, the AARF, to avoid dissidence or public resistance, tried to enrol the support of government for the proposed method. The AARF approached the Commonwealth government requesting that it establish a Current Cost Accounting Steering Group in order to aid the profession's endeavours in implementing a new accounting method. In reply, the then prime Minister, Malcolm Fraser considered such a move to be inappropriate for the government to undertake:

[On] requesting the government to establish a Current Cost Accounting Steering Group...I have given serious consideration to the request but feel that it would not be appropriate for the government to establish a steering group. Such a step would, I believe, more appropriately come from the accounting profession (Archive File 36 1976).

Although acknowledging the need for developing an alternate method of asset measurement, Fraser believed that the mechanics of organising and implementing this new method should be left to the professional bodies and their committees. Whilst failing to work with the AARF in establishing a steering committee, Fraser did indicate that the government had
a strong interest in the development of new accounting procedures and would wish to support efforts by the profession. If a steering group were established by the profession, I would be pleased to make Commonwealth officials available to discuss relevant issues with the group on a factual basis. Perhaps the best way to facilitate these discussions would be for the group when it is established to contact...the Department of Business and Consumer Affairs who will coordinate the group's contact with Commonwealth Departments (Archive File 36, 1976).

By the end of 1976 very little actual development had taken place in relation to inflation accounting, as the profession was no closer to an acceptable solution of asset measurement. It was at this stage that the focus of the AARF began to sway slowly away from asset measurement to a new project entitled The Objectives and Basic Concepts of Accounting. An issue which the Financial Accounting Standards Board (FASB) in the United States was also captivated by and at the time undertaking (Archive File 37, 1976).

**As The Call For A Solution To Asset Measurement Is Demanded The Hegemonic Struggle Intensifies**

The push for a lasting solution became paramount during 1977 as the profession's stance became critical. For over half a decade accounting authorities had invested time and money in finding an alternate method of asset measurement and still no credible solution had been reached. A record number of committees had been formed and continued to be formed but to no avail. The situation became desperate.
One of the suggested reasons for the lack of development can be attributed to the AARF's constant procrastination when it came to dealing with complex issues. Rather than endeavoring to deal with issues of complexity, the AARF preferred to deal with simpler issues, leaving the complex issues for another time and place. The minutes of meetings held by the Australian Accounting Standards Committee clearly identified this evident shortcoming. One example was in November 1976 when, at a meeting of the AASC, eleven matters relating to CCA were considered outstanding and in need of attention. In addition to these, there were a further three matters which, during the meeting, were seen as important enough to warrant consideration. Thus, in total, fourteen issues were to be considered in the meeting, however only two matters were considered; the remaining were to be “covered in due course” (Archive File 38, 1977).

The apparent delay in implementing a method of inflationary accounting began to take its toll, as skepticism grew and the work of the AARF was questioned. It was argued that the AARF was not adequately undertaking its duties because if it had an alternate measurement method would already have been developed and implemented. Not only was the AARF's ability to deal with the problem of inflationary accounting being questioned, so too was its ability to enforce accounting standards in general. Seen as being biased and unwilling to find solutions, the translation process of power was threatened as calls
It has been argued that the standards promulgated by the professional bodies have not been adequately researched, do not necessarily reflect the views of the members of the accounting bodies and do not take into account the needs or problems of commerce, industry and users generally. It has also been argued that the profession has either been unwilling or unable to effectively enforce the standards. These arguments have been extended during the present controversy of the development of some form of Current Cost Accounting which could have serious implications for the economy and therefore should be subject to some form of control by government (Archive File 39, 1977).

Various reasons were put forward as to why there was an apparent lack of development in the issue of inflationary accounting. To some, the fact that committee members were only part time members or worked on an honorary basis was considered a hindrance because not enough quality time was being devoted to the issue, resulting in a lack of resources necessary to carry out the research (Archive File 39, 1977).

Other, more direct, criticism blatantly argued that the lack of development could be attributed to the fact that certain groups within the community influenced accounting authorities, claiming that
the motivation of accounting bodies in setting accounting standards is suspect. This view is associated with the proposition that certain sections of the profession have undue influence on the development of standards...It needs also to be borne in mind that frequently the profession as a whole at an institutional level puts forward views which are no more than an advocacy of corporate views...the accounting profession is too closely intertwined with the interests of its big corporate clients (Archive File 39, 1977).

These claims were fueled by the realisation that the AARF was not giving appropriate consideration to the suggestions and thoughts of those members of the accounting profession outside the bounds of the AARF. Although the AARF indicated that responses were given to all comments made, in reality most were given very little attention. The following attests to the thoughts of many critics

the accounting profession is a "closed shop" and persons outside the profession have little or no opportunity of having their views taken into account when standards are set...with the publication...of their provisional standard on Current Cost Accounting, the Australian accounting profession launched the major offensive in their campaign to seize control over the conduct of Australian business (Archive File 39, 1977).

Criticism began to turn to anger, as it became clear that the AARF wanted control. Rather than strive for what the wider business community wanted, the needs of the AARF and the assurance that its status quo was not threatened, were given priority. Much to the animosity of individuals within the business community wanting to run a successful business
this outrageous proposal that the accounting profession shall decide how a company will value its assets, determine its profits, allocate its profits and pronounce judgement on a company's directors if they dare to defy these figures jugglers must surely raise the anger of all those who strive to earn the profits from which these people are paid (Archive File 39, 1977).

Yet the AARF continued to maintain its domination, using discourse to uphold the ideological set, whereby the AARF was viewed as the only group able to find a suitable solution to asset measurement. A ploy which some began to suspect:

it is unfortunate that many well-meaning people outside the accounting profession have been mesmerised by these people of doom, but I for one and I trust many others who feel like me will stand up and fight against this ridiculous proposal (Archive File 39, 1977).

Despite the AARF's attempts to discredit what was seen as unwanted criticism, correspondence continued to be received by the AARF, most of which argued that the proposed method would not be adequate for the needs of all and therefore changes had to be made. Many feared that the AARF was simply adopting the first method that came to hand, rather than carefully considering the effect that such a change would have on the business community as a whole. The following extract from a letter written to the Accounting Standards Committee by a member of the accounting profession indicates the level of business confidence that existed at the time:
Business confidence within Australia remains in a fragile condition. Although the high rate of inflation adds to the desirability of a departure from historical cost accounting, presumably the professional bodies are giving consideration to broader matters (Archive File 40, 1977).

For the AARF to maintain its dominant stance criticism like this had to be demonstrated to be unfounded. One way of achieving this was to ensure that the implementation date of CCA was carefully planned. The AARF decided that it could be detrimental to the cause of CCA if the public rejected the set implementation date. Therefore it was resolved that it would be beneficial if the implementation date in Australia coincided with that of the United States (Archive File 41, 1977).

In addition to the timing issue, it would appear the AARF attempted to enlist the support of an alternative influential body, having failed to achieve government support. This influential body was to be the Institute of Directors, which, through continual correspondence, formed a close relationship with the Foundation, one, which could ultimately play both a detrimental and positive part for the AARF. In the translation process of power the Institute of Directors could have assumed one of two roles, that of a potential predator or an ally. Suddenly, all efforts turned to pleasing the Institute of Directors which, if disappointed, could become a predator in the process but, if pleased, could assist the Foundation in the translation process of power (Archive File 42, 1977).
After several months, a Steering Group was finally established on behalf of the accounting profession. The main aim of the Steering Group was to assist in the implementation of Current Cost Accounting. Various Organisations were represented on the Steering Group, including, (Archive File 42, 1977).

- The Institute of Directors in Australia
- The Institute of Chartered Secretaries and Administrators
- The Associated Chambers of Manufactures in Australia
- The Australian Chamber of Commerce
- The Australian Associated Stock Exchange
- The Securities Institute of Australia
- The Accounting Association of Australia and New Zealand (representing accountants in the academic field)
- Australian Council of Trade Unions
- Australian Society of Accountants
- The Institute of Chartered Accountants in Australia.

Upon formation, the Steering Group was given both objectives and specific terms of reference in relation to the activity that was to be undertaken. The broad objectives of the Steering Group were stated as
1. To review any aspect of CCA and its implementation

2. To co-ordinate information and advice to all groups affected by the introduction of Current Cost Accounting

3. To ensure that all relevant views of such groups are considered

4. To make recommendations to appropriate bodies or authorities

Specific terms of reference included:

1. To facilitate the expression of views by members of the Steering Group in relation to the review of any aspect of CCA and its implementation

2. An examination of, and recommendation to, government on any legislative aspects

3. Advice on the education of the members of appropriate organizations and others on the implementation of the recommended accounting method

4. Participation, as appropriate, in the educational method

5. Liaison with other affected bodies

The objectives and terms of reference set out in relation to the Steering Group were to demonstrate just how important it was to the
professional bodies that an adequate method be found and implemented, one which took into account members' needs and suggestions. The question remains whether these thoughts continued once the doors of the professional bodies were shut and decisions were made.

What the Public Was Really Saying

For almost a decade, the public had been kept informed of the Current Cost Accounting saga, through press releases, journal articles and other correspondence initiated by the AARF on behalf of our professional bodies. On the surface, it seemed that whilst there were some evident problems with the proposed method, overall there was support for adopting CCA. In reality, however, the AARF was besieged by criticisms from weary accountants, academics and others who doubted the appropriateness of the method. These concerns were not made known or discussed with the wider business community. That was until March 1977, when an independently conducted survey by Wilson McCarthy, a financial relations advisor, revealed exactly what the wider business community thought about CCA. Entitled Current Cost Accounting Survey, the aim of the study was to evaluate the opinions held by the corporate community in relation to the implementation of the Current Cost Accounting method (Archive File 43, 1977).

Questionnaires were sent to all industrial and major mining companies
listed on the Stock Exchange. With one thousand one hundred and three questionnaires sent, there was just over a thirty-percent response rate with a total of three hundred and thirty-five responses received. From the responses, it became apparent that many believed that the proposed method, as it stood, was not adequate. There was no question that the business community desired an alternative method to historical cost; after all there were proven deficiencies with the use of historical cost.

Over seventy percent of respondents agreed in principle with the introduction of some form of Current Cost Accounting in public accounts. The problem, however, was that over sixty-three percent of respondents did not agree with the provisional standard that was proposed, seeing it as being inadequate for common needs. Furthermore, over seventy-one percent of respondents were not ready to accept the implementation date of the financial year 1977-1978 (Archive File 43, 1977).

Written comments, which also formed part of the Survey, simply added to the already negative feelings that surrounded CCA. Whilst both negative and positive comments were received, it would seem that the bad far outweighed the good, with less than ten percent of comments received being favourable. The following comment neatly summarises the widely-held belief that the push for CCA was being masterminded by accounting authorities, who in turn were also being influenced:
CCA is being pushed by the Institute; the Institute is controlled by the "Big Eight"; "The Big Eight" are controlled from overseas; overseas is controlled by the multinational corporations (Archive File 43, 1977).

With Australia reaching the point where a provisional standard on current cost accounting was developed and issued, the accounting profession in Australia moved significantly ahead of colleagues overseas. Accepting the proposals of the AARF would have meant that Australia would globally lead the way in inflation accounting. The question which had to be asked, was how it was that a comparably smaller country such as Australia could successfully move ahead and take the lead from larger established countries such as the United States and the United Kingdom? This was a concern that was acknowledged by the then Attorney General Frank Walker who was also concerned at the speed with which Australia was moving, and the degree of secrecy with which it was doing it:

If CCA is adopted according to the current plan in Australia we will be ahead of the world...while I am only too happy to see Australia lead other major countries, I believe there exist several vitally important doubts concerning this intention (Archive File 44, 1977).

The need for the professional bodies to be more open and honest with the wider business community had become apparent to Walker. For too long, the issue of inflationary accounting was confined to that of accounting authorities, despite critics having voiced their concerns to the AARF. Predicting the problems that await if such a method was
implemented at that point in time, many turned to Walker for help. Walker in turn reiterated the need to ensure that all concerns were heard (Archive File 44, 1977).

Once again the hegemonic struggle between the AARF and the members of the accounting profession became apparent. The AARF had to ensure that the proposal it put forward was adopted, and that the wider community see reason and accept the AARF’s new social world “common sense”. The wider community, however, refused to see the AARF’s idealistic reason and for many speculated that to adopt Current Cost Accounting in it’s then present form would be disastrous. Even the Institute of Directors began to challenge CCA. In a press release, the Institute of Directors supported Current Cost Accounting in principle but only after certain changes and conditions were met (Archive File 42, 1977). To use Current Cost Accounting as it was proposed was considered to be more subjective then the use of historical cost. As a result, calls were made for the AARF to “re-think the whole question of Current Cost Accounting” (Archive File 45, 1977). In its haste to implement Current Cost Accounting, there were still many unresolved matters that the AARF chose to ignore, including the issue of equity accounting under CCA (Archive File 46, 1977).

Opposition to the Foundation’s common sense was mounting. Despite being made aware that the AARF would receive very little support from various sectors of the business community, it continued to move
forward with its proposals. The disbelief of many, at the AARF's persistence with an unamended CCA is reflected in the following excerpt from a letter written by an individual firm:

It is becoming increasingly obvious that the present CCA proposals ... will not be supported by business, government or accountants generally, and I believe the accounting bodies will seriously damage the profession's reputation and be responsible for considerable confusion if the proposals are persisted with (Archive File 47, 1977).

With its dominant status once again threatened, the AARF mobilised in an effort to defend its status quo. Once more the onus was on the AARF to respond with activity that would demonstrate its ability to adequately solve the never-ending problem of measurement. In order to do this the AARF had both undertaken and commissioned various projects, including the development and issuing of a working guide to Current Cost Accounting. The working guide was to be used as a tool to help the AARF regain its credibility in the eyes of its members, although this outcome did not eventuate.

Setting stringent deadlines and a workload that looked good to the members but was realistically impossible to meet meant that once again the Foundation and the profession as a whole became the targets of criticism. In a memo to the Joint Standards Committee, the Foundation announced that one of the tasks that lay ahead in the CCA program was the completion and issuing of the Current Cost...
Accounting Working Guide by the end of 1977 (Archive File 49, 1977). This was in addition to making amendments and extensions to the existing provisional standard. These amendments included the preparation of further supplements to the provisional standard which was to cover areas that CCA had not dealt with, and finally the issuing of an exposure draft on the treatment of monetary items.

Needless to say, the working guide was not issued by the date stipulated, which came as no surprise to the AARF. For in the very same memo which outlined the work to be undertaken, it was stipulated that the CCA timetable was "tight" and did not allow for "contingencies" (Archive File 49, 1977). The Foundation argued that it failed to meet the deadline due to a heavy workload and a lack of full time staff⁵. However, from substantial research, it is evident that another hindrance to development of the working guide was that very few members of the accounting profession agreed with what the draft-working guide proposed.

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⁵ An argument that is still used extensively today and which was used as a justification for failing to meet the deadline for issuing a monograph on Statement of Accounting Concept number five (SAC 5). Considering that the AARF is to guide the rest of the business community in its accounting activities, it is no surprise that such a workload is encountered, although one would assume and rightly so that after twenty years a problem such as this would have been mastered by the profession.
Thirty-three copies of the draft working guide were circulated to various corporations. Of those sent only thirteen replies were received by the Foundation (Archive File 53, 1977). The responses received were not as positive as perhaps expected by the AARF, not unexpectedly, the results were not released apart from the AARF claiming that a majority of respondents accepted the draft-working guide, a conclusion that was not supported by the submissions received.

The release of the draft seemed to open the floodgates for more criticism as various sectors of the community, including mining and finance companies, believed that they were excluded under the proposed CCA method (Archive File 50, 1977). Other issues such as accounting for foreign currency and leases were also not covered by the working guide (Archive File 51, 1977).

These, however, were not the only sectors that were ignored as a submission from a representative of Telecom Australia (Currently Telstra) made clear. The respondent could not understand why the profession, in developing the alternative method to historical cost, chose to ignore the government sector applying all previous work including the working guide to the private sector. Furthermore, the submission made
mention of several other government corporations that could be used for testing such a method.6.

The level of concern was so great that private sector groups, such as the Building Owners and Managers Association, resorted to forming their own committees to investigate the effect that CCA would have on their corporate results. Justifying their actions, the Building Owners and Managers Association, could not comprehend the reasoning behind implementing CCA, as it had the effect of distorting reality to a greater extent than historical cost (Archive File 54, 1977). It was also claimed that CCA was not applicable to all business types as it was based on unrealistic assumptions. Furthermore, the implementation of CCA would mean that it was in direct conflict with Section 162(7) (C) of the Companies Act, which dealt with the disclosure of explanation for any non-current assets whose value in the balance sheet exceeds the amount thought reasonable to acquire a new one (Archive File 55, 1977). Drastic pleas were made to the AARF to re-think its stance on CCA and consider alternative methods to CCA, as not doing so could destroy the future of not just the accounting profession but the free enterprise system as a whole (Archive File 56, 1977).

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6 This letter included handwritten additions with the names of all chairmen and general managers ascribed beside the corporations name. It is also interesting that
Whilst it seemed that the AARF was busy fine-tuning the Current Cost Accounting method, it was also busy trying to ensure that greater support was received for its method. Its isomorphic character came out once again as it worked to ensure that the provisional statement resembled that of the International Accounting Standard, IAS6. 

Accounting responses to changing prices, comparing the two for differences and trying to make them as similar as possible (Archive File 57, 1977). It was suggested that

the issue of such an endorsement concurrently with the issue of the International Accounting Standard will tend to give support to CCA by emphasizing its significance in the context of International Accounting Standards (Archive File 58, 1977).

It would seem that the timing of the introduction of Current Cost Accounting was a political decision aimed at benefiting the AARF rather than those whom it was to serve. Obviously, the AARF knew its proposed CCA model was flawed but considered it was better to issue a statement sooner rather than later. In this way, even if the model was subsequently amended on the basis of public opinion, the AARF was clearly a "leader" in the field. The AARF argued that

the public sector has now adopted deprival value (a form of CCA) years after the AARF dropped it.
the presently announced timetable for the introduction of CCA...while...short...has undoubtedly had the desirable effect of arousing interest in the subject at all levels, the AASC believes it to be too stringent and that there could be a backlash against the profession, and the CCA system, if the inevitable alteration is deferred too long. We believe, as has been said, that the profession should be seen to be flexible, without moving away from its overall commitment to CCA (Archive File 59, 1977).

NEARING A NEW DECADE - BUT NOT A SOLUTION

The year 1978 was a year that slowly began to phase out the issue of measurement as a primary focal point for the Foundation's activities and the profession as a whole. It was during 1978 that the negative criticism plaguing the profession reached an all time peak thereby indicating to the AARF that it was time to change focus. By the end of 1978 more and more focus began to shift to another controversial issue, the conceptual framework. Ironically, completion of the conceptual framework is today hampered by the very issue it was to replace, measurement.

With criticism strong there was once again a renewed threat to the AARF's domination which forced the AARF to move backwards in the translation process to reaffirm its dominance. The use of creative discourse saw chosen members of the professional bodies try to win over the support of the public by trying to explain their apparent lack of progress in achieving acceptance of their proposed CCA model. Ironically, a member working closely with the professional bodies, who
was given such a task only months before his presentation, had criticised the profession for being too slow. However, after becoming personally involved with the activities of the profession, this member was more than happy to sing the praises of the AARF and our accounting bodies (Archive File 60, 1978).

This use of discourse was but only one way that the AARF tried to win back the trust of the dominated actors. The next big step came in early 1978, when a new Foundation Executive was formed, to oversee the preparation of Australian accounting and auditing standards. The formation of this executive committee can be viewed as a smoke screen that was used to reassure all dominated actors that protecting the public interest was a priority. However, the make up of this committee alone indicates the extent of the political power play that was undertaken in order to secure the domination of the AARF.

In total, the new Foundation Executive consisted of ten members. Of these, half was comprised of the senior partners of five of the “Big Eight” accounting firms in Australia. A further three members were accounting officers from three of Australia’s biggest corporations, with one member a government accountant and one member representative of small to medium business (Archive File 60, 1978). Being very selective in their representation, the Foundation considered this to be a well-balanced committee. If an imbalance did exist, according to the Foundation, it was the geographical location of members, with five being
from Melbourne, four from Sydney and one from Brisbane.

Despite a majority of members having previously worked in various capacities for either the Society or the Institute, only two had any previous experience in developing accounting standards. The composition of the new executive committee appears to substantiate claims that there was a lack of adequate development due to the little or no experience, with the controversial issues that they were to resolve, being possessed by committee members.

However, it would seem that the AARF could never adequately shield itself from the threat of domination, as those who saw through its smokescreen wanted to ensure that the profession was seen for what they were doing. During a meeting of the CCA Status Committee, Professor Chambers requested that a project be undertaken that would analyse the criticisms voiced in accounting journals in relation to Current Cost Accounting (Archive File 61, 1978). In response, the senior accountant of Conzinc Riotinto of Australia Limited, R.G. Marriott accepted the challenge.

The project looked at criticism from the time the provisional standard was issued in October 1976 to March 1978 and proved to be a much more difficult task than first thought due to the volume of criticism that had appeared. In the Australian Accountant alone, eighty-one articles appeared criticising the alternative method to be adopted (Archive File
62, 1978). As a result of this delay, Marriott prepared a progress report, much to the dismay of the AARF.

Although the progress report was not a direct criticism of the AARF or the profession in general, it was still viewed as a threat to its domination. Consequently, the AARF treated this report as it had all other criticism. Venting their frustration, members of the AARF criticised the progress report, claiming that it lacked the characteristics of a formal document, resembling an attachment to a formal document. Furthermore, the significance of the report was criticised by the AARF, as it would not be completed in the stipulated time, a problem which the AARF should have understood better than anybody (Archive File 61, 1978).

Although the overall report was dismissed as being a product of minority thought, or simply an evident misunderstanding of the facts by the critics, the AARF knew that it had to respond. Once again the AARF portrayed itself as being indispensable and claimed to be better informed than anyone else and better able to undertake the job and complete it adequately:

The Committee was instructed by the Joint Standing Committee (JSC) to draft CCA Standards. Its members cover all shades of opinion and its composition has and is continuing to change throughout this project. The Committee men and AARF staff are much better informed on the subject than most others (Archive File 61, 1978).
Despite the AARF's attempts to demonstrate that adequate work was conducted, some remained skeptical, as the facts were too hard to ignore. The reality was that after several years of what was supposed to be continuous attention by the AARF to inflation accounting and asset measurement, nothing had been achieved. This is, whilst the AARF proposed CCA, it did nothing to respond to concerns over CCA. Realising that criticism was still strong, the AARF implemented various strategies and alliances to combat the criticism.

A prime example of such action was the Foundation's response to the criticism received from the Council of the Authorised Money Market Dealers (AMMD). The Council of the AMMD was concerned that the solution proposed was not adequate for all situations as it covered only non-monetary assets. The AMMD made it clear that

the Council is not enthusiastic about the present state of thinking about current cost accounting and sincerely trusts that it will not be introduced as projected; or better still, that a return to financial stability will obviate altogether the need for its implementation (Archive File 63, 1978).

The AARF responded in a political way, claiming that the provisional standard was far from complete and that various issues still had to be considered, including that put forward by the Council of the Australian Money Market Dealers (Archive File 64, 1978). In one move, the AARF not only protected itself from damaging criticism, but also gave the impression that the provisional standard was not yet finalised, leaving
room for improvement.

The AARF continued to implement forcefully CCA when it was so plainly evident that it was not the most suitable solution in the eyes of the wider business community. Yet if the AARF did accept the views of "outsiders" and agreed that perhaps their proposed solution was lacking, the AARF would be left vulnerable to the discourse of its opponents. This continuance served only to fuel the already raging fire with criticism now not only targeting the provisional standard, but also its unwelcome partner in deceit, the working guide.

Once again Professor Chambers was one of the first to criticise the profession's actions. Professor Chambers openly criticised the AARF for blindly proceeding with the working guide, ignoring the suggestions put forward by him or anybody else. Professor Chambers argued that

\[\text{many of the things I mentioned in critiques during the middle of last year remain. As I said then, I would not have introduced so much detail and so many refinements if I had in mind the "marketing" of CCA. And recollecting the response to the complexity of the Morpeth proposal, I think that would have been wise (Archive File 65, 1978).}\]

Despite reservations held by Professor Chambers that limitations existed with the working guide, his authority as the President of the Society and his knowledge as a prominent academic were to be overruled. Nothing was to stop the issuing of the working guide. Minority groups formed within the professional bodies in an apparent
bid to overthrow anyone who held a different view, even if they were the President of the Society.

In a memorandum from the President of the Institute of Chartered Accountants to the Deputy President, Vice President, Chairman and Deputy Chairman of the Current Cost Accounting Standards Committee, it was made abundantly clear that no amount of opposition to the working guide would impede its issue. To ensure that this was the case, the Deputy President of the Institute was instructed by the Joint Standing Committee to confer with Professor Chambers and make him see reason.

However, no compromise was made as Professor Chambers continued to stand by his objections, despite the admission by the Deputy President that he had to accept the thoughts of the Current Cost Accounting Standards Committee and was therefore prepared to issue the working guide on behalf of the Institute:

I outlined to him that I must accept the view of the CCA Standards Committee and that on behalf of the Institute I was prepared to authorise the issue of the working guide (Archive File 66, 1978).

The AARF claimed that the objections voiced by Professor Chambers were irrelevant to the issue at hand as they dealt with the provisional standard rather than the working guide. The letter continued to detail the urgency with which the issuing of the working guide was awaited by all (Archive File 67, 1978). Neither the views of one academic nor the
submissions of countless others was going to prevent the working guide from being issued.

Another controversial issue within CCA itself, which hindered its development, was the recognition of gains or losses on monetary items in the context of CCA. Submissions were called for and received by the Foundation to the exposure draft on monetary items. However, the responses were not favourable and therefore once again the AARF chose to ignore them, as they were marked by the AARF as not to be distributed. Collectively, the submissions contained a secret that the AARF did not want revealed. The secret was the extent of objection that really existed towards the implementation of CCA. Whilst a majority of submissions conceded that an alternative method was required, many saw problems arising if the proposed method was adopted (Archive File 68, 1978). In order to help keep their critics quiet and reassure the unsuspecting public that all was well, a press release was issued claiming that majority support existed for the proposed standard in its current form, or a modified form (Archive File 69, 1979).

Oblivious to the overwhelming concerns voiced, the AARF continued to push for the implementation of current cost accounting. For example, the rural sector failed to escape the lack of concern that was so evidently displayed by our profession. In a letter addressed to the Society, the rural sector advised that, due to the extensive problems it envisaged with the implementation of CCA, it had taken it upon itself to
create a working party. The aim of the working party would be to consider the effects that the implementation of CCA would have on the rural sector (Archive File 70, 1978).

Two months later in an internal memo between the Foundation and the Society it was made clear that the problems created for the Rural sector as a result of implementing CCA did not in any way concern the profession, nor would it hinder its plans:

No doubt you will be interested in comments received from the rural area about CCA. I can't say they are all that encouraging but we didn't really expect that CCA would assist the farmer, did we? (Archive File 71, 1978).

As negative criticism towards the implementation of CCA proceeded to inundate the profession, the financial press also began to focus on the problems of CCA (Archive File 72, 1978). With dissidence from opposing groups mounting, the AARF could feel its domination slipping, therefore hastily undertaking the printing of the working guide. With the printers under pressure to complete the printing of the guide as soon as possible, their job was hindered as the guide was still incomplete.

We will do all in our power to push this job through our plant as quickly as possible when we can finally analyse all the setting involved to produce this particular job ... therein lies our problem. At the time of writing [this letter] it still had not been completed (Archive File 73, 1978).

To further facilitate the guide's acceptance, preparation for the conducting of workshops also began. Even though there were calls for
the workshops to be postponed, the profession argued the importance of educating individuals on using CCA (Archive File 74, 1978). Such action could be likened to the translation moments of interessement and enrolment where the AARF was working towards ensuring that everyone realised just how useful CCA and the working guide were to the well being of all concerned. Immediately, the profession mobilised and formed a sub-committee to prepare the necessary workshop material (Archive File 75, 1978). In addition to the CCA workshops, a further committee was formed by the profession, *The Economic Implications of CCA Committee*. The stated purpose of the committee was protection of the public's interest.

To be chosen for membership of this committee, it would seem that you did not have to possess any particular educational or professional requirements. Potential members were approached by members of the professional bodies, not for their knowledge or expertise in the area, but because of the likelihood that they would support CCA (Archive File 76, 1978). The only membership requirement appears to have been acceptance of the AARF's version of CCA. Often the committees were further segregated with only the "elite" of the committee being approached to review drafts (Archive File 77, 1978). Once again, membership of the "elite" group appears to have been based on sharing the views of the dominant.

The selective process was not confined to the work of the committees
alone; it was also exercised in choosing which organisations would review such important documents as the CCA working guide (Archive File 78, 1978). All these strategies and alliances were a way of ensuring that the dominated accepted the discourse being reviewed in order for the dominant to remain, as more and more began to reject openly the proposed method of CCA (Archive File 79, 1978).

A DECADE OLDER BUT NONE THE WISER

With the decade coming to a close, there seemed to be no end to the measurement debate. The intentions of not only the AARF but also the professional bodies collectively were questioned. Their motives and the actions they undertook throughout the decade all had a shadow of doubt fall over them. This was brought on not only because of the lack of apparent development during the past decade, but also because of the fact that many newly issued exposure drafts dealing with issues such as Foreign Currency, were not considered under CCA. Therefore it was argued that

publication of the draft without reference to the effect of CCA must create the impression that the profession is not serious about proceeding with any form of current cost accounting (Archive File 80, 1979).

For some time, the profession continued to discredit criticism that was thrown its way. Yet the profession realised that the only way to attain full acceptance of CCA by the community was if it were to achieve a
place in financial reports. It was considered that

the adoption or otherwise of CCA will depend on
its acceptance by the business community as will
the form of CCA...however, the public at large will
view CCA as acceptable only when it is common
place in published financial statements (Archive
File 81, 1979).

To achieve this, the profession had to ensure that CCA was sold to the
unsuspecting public. The “Package”, as it was referred to by our
accounting authorities, had to be put together in a marketable way.
CCA had to be seen to be useful by those interested in CCA but, at the
same time, it had to minimise any adverse reaction from those
unsympathetic to CCA (Archive File 82, 1979). To ensure that some
degree of criticism was avoided, proposed exposure drafts were issued
early to a selected few for comment in order to gain some prior insight
to the response most likely to be received (Archive File 83, 1979).

As time moved on, more and more focus was being placed on what was
happening abroad. The reliance that Australia had on the Financial
Accounting Standards Board (FASB) was difficult to dismiss, as special
trips were made with the aim of learning more:

We have much to learn from, and will have to rely
greatly on work done by, the FASB (Archive File
84, 1979).

The profession's isomorphic characteristic shone through as it realised
the importance of adopting a method similar to that undertaken
overseas in order to attain full acceptance of CCA:
There was a fairly strong view expressed that it would be far easier to gain acceptance of CCA by the Australian business community if the eventual Australian Standard were to be as close as possible to SAAP 16 (*Archive File 85, 1980*).

Overseas interest did not stop with the FASB. Requests were also made by the Foundation to Accounting Committees in the U.K. for information to be sent to them regarding CCA, be it staff papers, submissions or simply the thinking behind certain issues (*Archive File 86, 1979*).

Even though a whole decade had been devoted by the AARF to Current Cost Accounting, no real developments were made. The beginning of a new decade brought little change as accounting authorities continued to form alliances with those groups that they considered would assist in the acceptance of CCA:

The immediate and continuing liaison be established and maintained at both official and administrative levels, with the Institute of Directors with the object of eliciting their support...with the Institute of Directors support, the Stock Exchange may be persuaded to stipulate the inclusion of CCA information as a listing requirement (*Archive File 87 and 88, 1980*).

The fact that the community was voicing its concerns against the implementation of CCA in its then present format did not phase the profession. As far as the AARF was concerned the community will have to accept that CCA accounts will be used as a supplementary system for some time in conjunction with historical accounts (*Archive File 89, 1980*).
With the early part of the 1980s beginning to set in, the profession's focus began to move away from CCA and the whole issue of inflation accounting. Whilst it was still considered to be an important issue, it was seen as an issue that could go no further at that time. By 1983 the issue of CCA was deferred, as the Chairman of the Current Cost Accounting Standards Committee stated:

the draft standard has been exhaustively ventilated, re-ventilated and hyper-ventilated already (Linn 1996, 191).

For well over a decade, the profession pondered the issue of inflation accounting, playing every political game available in a bid to achieve acceptance of its solution and maintain professional domination of accounting practice. More than two decades later the inability to solve the problem of inflation accounting has made the issue of measurement the most controversial accounting issue. The most appropriate method of measuring remains a mystery. Even several years devoted to the development of a conceptual framework has not brought the standard setting bodies any closer to an answer.
The following chapter will examine recent activities of the AARF as it has continued on the asset measurement odyssey including the initiation of the conceptual framework project and its latest achievement, Accounting Theory Monograph number ten, Measurement in Financial Accounting.
ACCOUNTING THROUGH THE LOOKING GLASS: A REFLECTION OF TWENTIETH CENTURY ACCOUNTING CRISSES - THE MAD HATTER'S TEA PARTY AND THE MEASUREMENT DEBATE.

VOLUME TWO
Once the campaign for CCA had slowed, the next major project in relation to measurement which was undertaken by the AARF was to develop Statement of Accounting Concept number five (SAC 5). Forming part of the conceptual framework, SAC 5 was intended to guide standard setters in the determination of the appropriate basis for measuring the elements of financial statements. Considered as one of the most important building blocks in the conceptual framework, the process of developing SAC 5 has been marred by controversy both within and outside the Foundation. Today, almost two years after the promised release date of SAC 5, a theory monograph has been released. However, given that the monograph's primary author refuses to associate his name with the publication, its contents are clearly contentious. The following chapter will examine the environment surrounding the initial development of the Australian conceptual framework in order to allow an adequate examination of the development and present day controversy of SAC 5.

INTRODUCTION

Exhausting the issue of inflation accounting whilst still having to contend with claims of financial reporting being inadequate, the 1980s saw the
AARF's primary focus change to the development of a conceptual framework. Part of the reason for the change in focus was that high levels of inflation were no longer being experienced so the inflation debate had become redundant. On the other hand, unlike other learned profession's, accounting lacked a body of "esoteric knowledge" (See Goldstein 1984). Accordingly, the AARF embarked on the search for a body of knowledge or conceptual framework on the basis that such a framework would facilitate development of consistent and workable accounting standards.

To date four of the Statements of Accounting Concepts have been developed covering the definition of a reporting entity (SAC 1), the objective of general purpose financial reporting (SAC 2) and the qualitative characteristics of financial information (SAC 3). The last of the Concept Statements issued (SAC 4) deals with the definition and recognition criteria for the elements of financial statements. Given that part of the recognition criteria in SAC 4 is the ability to reliably measure the elements of financial statements, its usefulness has been hindered by the absence of a measurement statement SAC 5.

To date the closest we have arrived to the development of SAC 5 is with the publication of Accounting Theory Monograph number Ten, *Measurement in*
Financial Accounting. Over a decade in the making, this monograph is seen by the AARF as the first formal step to developing SAC 5. Yet, when considering the contention and disagreements that has occurred behind closed doors, it becomes clear why this building block can, to date, be considered the most controversial.

Disassociated from its author, Chris Warrell, the monograph is a paradox. The publication advocates an alternative method to the conventional accounting model (historical cost), but it also defends the traditional method to the point of resisting change. Resembling already existing practice, it becomes difficult to envisage just how this monograph could develop a concept statement that would adequately guide standard setters through the difficult process of measurement.

Although the 1970s may be ranked as the most controversial to date in relation to the activities of the AARF, the 1980s come closely behind as being the most chaotic. Whilst the decade in question was dominated by the conceptual framework, the AARF chose to continue with the push for CCA, although not as forcefully as it had in the 1970s. The mid-1980s saw the publication of Statement of Accounting Practice number One "Current Cost Accounting" (SAP 1). SAP 1 was intended as a guide, for
corporations wishing to prepare financial reports in accordance with CCA. However, the AARF had other pressing problems to attend to such as the lack of progress made on the conceptual framework.

A CONTENTIOUS ENVIRONMENT - MET BY CONTENTIOUS SOLUTIONS

The AARF's decision to develop a conceptual framework appears to have been based on a number of factors. For example, the AARF's inability to find a solution to the problem of inflation accounting had been attributed to the absence of a conceptual framework that could guide standard setters (Burrows 1996, 159). In addition, the AARF conceded that financial reporting lacked a conceptual framework that would bring together the theories of accounting resulting in the development and implementation of consistent accounting standards. This in turn, may encourage compliance with accounting standards.

Moves to begin a conceptual framework can be dated back to the mid-1970s, when Australia was still in the midst of the measurement debate. Following overseas activity, the AARF began to seriously consider the need for a conceptual framework. In 1974, Professor Barton was commissioned to prepare a monograph entitled Statement of Basic accounting Concepts. For the next several years a watchful eye was kept on developments
overseas, updating the monograph as more progress was made. All the while, the AARF chose not to focus too much public attention on the project. It was not until 1980 when Kevin Stevenson took over as Director of the Foundation, that work on the conceptual framework was stepped up. Embarking on a new adventure, the AARF maintained its isomorphic trait as Stevenson openly declared that a heavy reliance would be placed on the work accomplished by the Financial Accounting Standards Board (FASB) (Burrows 1996, 160).

The initial effort to have the conceptual framework project accepted by the business community was in stark contrast to the AARF's proposed implementation of CCA. Fearing that the public would consider the development of the conceptual framework as an alternative means of implementing CCA, the AARF chose an indirect approach to unmasking the conceptual framework. As was made clear by Stevenson whilst Director of the AARF:
the ire of the [accounting] community if they foresaw dereliction of the burning issues of the day; the possible apprehensions that we were trying to introduce CCA under another cloak ... [Thus the AARF] would not market the notion or importance, of a conceptual framework in any prominent way: we would gradually unveil the framework when we were confident of producing end products. Even then we would be careful not to over-sell it (Burrows 1996, 160).

So strong was the AARF's need to have the conceptual framework made public slowly, that the first official public mention of the project was not made until September 1983. The importance and the objective of the conceptual framework was made clear in an interview with the *Australian Accountant* by the Chairman of the Accounting Standards Board, Mr Gordon Lee (Burrows 1996, 161). Nonetheless, further steps in the conceptual framework process had been undertaken two years earlier with the commissioning in 1981 of Professor Rob Coombes and Professor Carrick Martin to prepare an accounting theory monograph on revenue. The first formal publication in relation to the conceptual framework was made by the AARF in 1982 with the eventual publication of Barton's monograph, *Objectives and Basic Concepts of Accounting*, followed soon after by the publication of Coombes and Martin's monograph, *The Definition and Recognition of Revenue*. From this point onwards, various publications were released, all contributing to the building blocks of the
conceptual framework.

Support slowly began to grow for the conceptual framework as it was realised that there was a necessity to develop sound accounting standards. In a paper written by the National Companies and Securities Commission (NCSC) in 1983, the NCSC openly supported the development of a conceptual framework. The NCSC argued that a conceptual framework would benefit the profession and wider business community by improving financial statements. Furthermore, it would be beneficial as a guide to standard setters and as a reference in the absence of particular standards (Burrows 1996, 161).

On the other hand, the internal conflict that existed when the AARF was attempting to influence the adoption of CCA was again repeated with the conceptual framework. Once again, the work was dominated by a select few, with the ideas and opinions of some individuals ignored, including those of Professor Chambers. Contrary to the AARF's claim that Chambers, at the time a member of the Board, tried to influence the development of the conceptual framework, research has failed to find evidence of this. Rather, in a two-page summation, Chambers outlined thirteen key propositions, which he believed could be useful for the AARF
to review in their preparation for the conceptual framework. This same document which, some years earlier was presented to the Trueblood Committee in the United States, was ignored by the AARF.

In spite of some conflicts and differing viewpoints, work continued on the conceptual framework throughout the 1980s and 1990s. However, the AARF, on the basis of its own past experiences and that of the FASB, knew that a major stumbling block for the conceptual framework would be the issue of measurement.

At level 5, the potentially controversial "basis of measurement", Kevin Stevenson pointed out that the Foundation could either investigate the various measurement techniques (which it had done a decade earlier) or assume historical costs and concentrate on cost measurement issues. Whilst no explicit decision was recorded, subsequent work assumed historical cost (Burrows 1996, 165).

However, the extent of complexity and controversy that was to be encountered in the development of SAC 5 may not have been expected by the AARF, an issue that will be looked at in great detail later in the chapter.

Current Cost Accounting lives On: SAP 1

In its continued efforts to mobilize against inadequate financial reporting
the AARF, whilst developing the conceptual framework, proceeded to promote CCA. Preparing a CCA working guide, Statement of Accounting Practice (SAP 1) Current Cost Accounting, the AARF conceded that the public may perceive the conceptual framework as another ingenious way of implementing CCA (Burrows 1996, 160).

Like the conceptual framework, the origins of SAP 1 can be found in work conducted overseas. Several years prior to the publication of SAP 1, the accounting profession in the United Kingdom issued Statement of Standard Accounting Practice (SSAP) 16, Current Cost Accounting. With mandatory status, SSAP 16 required all listed companies to prepare CCA financial statements for the financial years commencing on or after 1 January 1980. This requirement was not received well by the business community in the United Kingdom. Statistical evidence supports this conclusion although it does indicate initial, though short-lived, acceptance. The compliance rate was the highest during 1981 and 1982, at ninety one percent. By 1983, the rate began to drop substantially reaching a staggering twenty percent in 1985, when the mandatory status of SSAP 16 was suspended (Archive File 169, 1987). The degree of non-compliance verified the reluctance of the business community to adopt CCA as an alternative to historical cost. This reluctance gains significance
when it is considered that non-compliance was in breach of listing requirements.

[T]he failure of an accounting standard due to the willingness of large numbers of companies to abandon compliance in breach of their listing agreement with the stock exchange is a unique occurrence implying sharply focused reporting preferences (Archive file 169, 1987).

Falling short of its expectations, the UK profession was left to reconsider the entire inflation accounting project (Clarke 1982).

The problems encountered in the United Kingdom did not deter the AARF from issuing a similar document. However, whether from its own experience or that of the profession in the UK, or both, it appears the AARF finally recognised the contentious nature of the measurement issue. Officially published in 1984, SAP 1 carried no mandatory status. It was intended to be used only as a guide by corporations wishing to prepare financial reports in accordance with CCA. The overall objective of the guide was to assist entities that wanted to provide more informative information to the users of financial statements. SAP 1 focused on the practical implementation of CCA, detailing to interested parties how to prepare reports using the CCA method. The guide was to be a supplement to the existing Current Cost Statement of Accounting Practice and
Guidance Notes, which focused on the philosophy and objectives of CCA (AARF 1984, v).

Although the guide recommended how to implement CCA, it left many questions unanswered. For example, SAP 1 did not advocate whether or not CCA statements were to be prepared as supplementary statements or as primary statements. This decision was left to the discretion of the individual entity. The corporations wishing to implement CCA had to ascertain the cost of obtaining the required information to compile CCA statements, and analyse whether the entity possessed the resources necessary for utilising CCA. More importantly, it was up to the entity to assess whether CCA information would prove beneficial and useful to not just the entity but also to users of the financial reports.

Upon concluding that the preparation and presentation of financial reports based on CCA would be a viable alternative, corporations had to decide how the CCA figures would be derived and recorded. Following the guide, corporations were given three alternative methods for deriving CCA figures. Firstly, traditional historical cost figures could be adjusted according to the change in the indexes. Secondly, corporations were permitted to derive the figures from a separate CCA accounting system, including that
proposed by the guide, which required assets to be restated at current cost. Lastly, corporations were given the choice of combining the above two methods and applying them to particular assets. For instance, method one could be applied to inventories and other assets owned by a corporation whilst method two could be applied to other assets such as fixed assets.

Corporations were also given the choice as to what method should be used to record CCA information, a choice which was based on whether or not the CCA financial statements were to be the primary or supplementary statements. In situations where they were to be the primary statements the following options were available (AARF 1984, 2):

- To have the CCA statements recorded in the primary records with the conventional records kept in a separate section of the primary records on a memorandum basis, or

- To have CCA statements recorded in the primary records with the conventional records forming part of the working papers for the purpose of producing conventional financial statements, or

- To have CCA statements recorded in the primary records with
conventional records not being maintained.

In situations where the CCA statements were to assume the role of supplementary statements, CCA statements could be recorded using either of the following methods (AARF 1984, 2);

- In the working papers by keeping them separate to the primary accounting records which would be maintained in conventional accounting terms, or
- In a separate ledger, by being kept in a separate section of the primary accounting records on a memorandum basis.

Produced only as a guide, SAP 1 was written from a general point of view, thus failing to assist users in specific situations. With a general focus taken, SAP 1 focused on procedures that could be followed in a variety of situations, preferring to limit discussion of applying CCA to specific industries or business types to a later date:

It is envisaged that, in the initial implementation of CCA, the majority of businesses may prefer to adopt a fairly simple approach, with more sophisticated methods of application evolving as experience is gained (AARF 1984, v).

Today, fifteen years after SAP 1 was first published, the Statement of
Accounting Practice lives on but, it would seem, does little to influence how corporations today prepare their financial reports. Large accounting firms in Sydney were contacted and were asked for any documentation or evidence which could indicate the percentage of corporations that refer to SAP 1 in order to determine how useful SAP 1 is to the business community. From discussions with larger accounting firms, it would seem few, if any, corporations actually follow SAP 1. There are no evident records indicating that SAP 1 is used by any corporation. Furthermore, it was necessary at times to explain what SAP 1 is. In spite of this, the practice statement has continued to be published as part of the accounting handbook, which details all current day accounting standards and practices. Justification for continued publication of SAP 1 based on the objective of the practice statement which is

> to advance the adoption of improved accounting methods to cope with the effects of changing prices, the accounting bodies strongly recommend that, from the date of issuance of this statement, all entities publish CCA financial statements on a basis supplementary to conventional financial statements (ASCPA 1998)

**Non-Compliance with Accounting Standards During The 1980s**

The development of the conceptual framework and the issuance of SAP 1 can be viewed as yet another moment of mobilisation in the AARF’s
history. However, neither the conceptual framework project nor SAP 1 provided protection from dissidence. By the later 1980s both the business community and regulatory bodies voiced disappointment with the state of financial reporting (Cassie 1987, 60). The Chairman of the National Companies and Securities Commission (NCSC), Henry Bosch, publicly declared that accounting conventions were inadequate, as many possessed an unrestrained nature that allowed for manipulation and diverse practice across the board.

Our accounting conventions are loose and practices vary. There is substantial scope for management to adjust the figures to meet their own short-term interests...if we do not have common accounting standards, the scope for creative accounting and, indeed, deliberate manipulation will remain [Cassie 1987, 60].

In addition, with in built scope for manipulation, the business community was largely ignoring accounting standards. Once again, the AARF came under scrutiny as it attempted to impress with "solutions" which were not acceptable by the majority. This was evident with the development and issuing of a much debated standard, AAS 18 Accounting for Goodwill. In spite of the expression of serious concerns by the business community, and apparently oblivious to practical problems that might lie ahead the AARF proceeded with implementing the standard for goodwill.
Discussions concentrating on the perils of the newly implemented AAS 18 had filled the pages of the financial press. The basis of the problem was the difficulty encountered in measuring intangible assets, specifically, goodwill [Westworth 1987, 160]. In December 1984, the Chairman of the Accounting Standards Review Board (ASRB), Geoff Bottrill, announced that it was time to consider and resolve the issue of valuation. Bottrill made it clear that information provided on a historical cost basis was simply too little too late as it did not provide adequate information for users of financial statements:

In one form or another we have to face up to accounting valuations...we have to reach agreement on a complete system and the ASRB will be watching, with special interest, moves in that direction [Accountancy Hotline 1984].

The difficulty associated with the valuing of goodwill resulted in then unprecedented requirements put forward in AAS 18. Under the goodwill standard, "purchased goodwill" constituted an asset and therefore, had to be disclosed in the balance sheet. Thus, goodwill was seen as possessing a future benefit which would have to be written-off progressively at the Director's discretion, but over a period not exceeding twenty years. Prior to AAS 18, the favoured practice of writing off goodwill was as an extraordinary item [Jukes 1987, 101]. Furthermore, given the uncertainty
of how to value goodwill, AAS 18 prohibited the recognition and inclusion of internally generated goodwill in the accounts of a corporation [Westworth 1987, 160].

A considerable amount of backlash from large prestigious corporations was directed towards the requirements of AAS 18. For example, the corporate controller of Mayne Nickless led the assault against AAS 18 calling for the standard to be re-written due to its unfair stance towards certain sectors of the business community [Accountancy Hotline 1985]. The ANZ Bank was also prepared to rebel against AAS 18 preferring to accept a qualified audit report rather than comply with the amortisation requirements of AAS 18 [Accountancy Hotline 1987].

Australia's largest public corporations joined forces in dismissing the requirements of AAS 18. Rather than progressively writing-off goodwill as required by AAS 18, corporations such as Coles Myer and Boral continued to treat goodwill as an extraordinary item being written-off immediately. Boral defended its treatment of goodwill on the basis that complying with AAS 18 would result in a decrease of after-tax profits totaling over thirteen million dollars a year for anywhere up to twenty years [Bartholomeusz 1987, 60]. Whilst some corporations openly defied the requirements of
AAS 18, other influential corporations continued to search for a way out [Munton 1987, 16]. Some corporations stated that, as they had with accounting standards in the past, they would have to draw the line with AAS 18 (Archive File 90B, 1985).

The determination of the business community to have the standard amended was matched by the AARF's determination to implement AAS 18. The Foundation was so intent on preventing AAS 18 from being changed by controversy that the actions of the AARF were not in the public interest. The AARF refused to submit AAS 18 to the ASRB for review upon discovering that several members of the ASRB wanted the standard amended. AAS 18 was not submitted for review until after membership of the ASRB changed. To ensure that very little outside interest would intervene in getting AAS 18 through the review stage, either the professional bodies or the AARF nominated the new members of the Board (Walker 1988).

The Accounting Standards Review Board found itself in a politically-created position of despair. If it were to review and support the standard in its original form, then there would be considerable objections from within the corporate community. On the other hand, if the ASRB were to
review and alter the requirements of the standard then it would meet with objections from the AARF and other sectors of the accounting profession. Consequently, a compromise was struck and the standard was amended by the addition of a clause permitting immediate write-off if desired (Walker 1988).

Non-compliance with accounting standards was not unique to AAS 18. Coinciding with the contentiousness of AAS 18, a considerable amount of public literature and correspondence between the professional bodies, the AARF and outside members indicates many instances of corporate non-compliance with a number of accounting standards. By the mid 1980s, departure from accounting standards had reached its peak and the professional bodies were inundated with letters from the outside business community regarding the instances of non-compliance. In response, the professional bodies argued that something had to be done to ensure that the occurrence of non-compliance with accounting standards was reduced (Archive File 90B, 1985).

By 1987, the Joint Standing Committee of the two professional bodies issued an amended auditing standard (AUS 1), which imposed a professional responsibility on auditors to give an adverse or qualified audit
opinion for a corporation that had chosen to depart from the mandatory statements (Archive File 91, 1987). The issuing of AUS 1 could be looked upon as an example of mobilisation even though the Joint Standing Committee and the professional bodies denied it was a direct response to the comments made by representatives of the National Companies and Securities Commission. Which also considered non-compliance to be a major hindrance to the usefulness of financial reports. The professional bodies argued that AUS 1 was simply a reinforcement of what was already in existence (Archive File 92, 1987).

The implementation of AUS 1 did not deter corporations from non-compliance with accounting standards. After the release of AUS 1, the AARF and the professional bodies were still being inundated with letters from the corporate community, claiming that, in many cases, it was still necessary to depart from certain accounting standards if a true and fair view was to be given. A majority of the letters received represented small business which argued that accounting standards were developed to benefit the interests of large corporations. Feelings were made blatantly clear as this letter from a representative of Lockwood and Partners, a chartered accounting firm, demonstrates:
Many of the recent accounting standards would appear to have been produced without due regard for its relevance or applicability to small business conditions (*Archive File* 94, 1986).

Even corporations that had previously complied with accounting standards were beginning to stray, as they regarded compliance with certain accounting standards no longer a viable option:

> We have always prided ourselves on the fact that this firm [Manning & Perry] has complied with the accounting standards issued by the Institute and Society when preparing annual accounts for clients...we are aware that in so doing we have gone further than many...it is therefore with regret that we have now been forced to change our policy of compliance (*Archive File* 95, 1986).

Consistent with the third moment of the translation process, enrolment, the professional bodies along with the AARF tried to ensure that as many as possible supported the need to comply with accounting standards, endeavouring to rectify the problem of non-compliance. Speeches and papers presented at the time all carried the crucial theme of accounting standards and the necessity of compliance (*Archive File* 96, 1986). The profession argued that for relevant and reliable information to be disclosed to users of financial statements for the purposes of decision-making, there was an unequivocal need for standards to be complied with (*Archive File* 96, 1986).
Preparers of financial statements were not alone in departing from accounting standards; auditors, too, had exercised a degree of non-compliance as they began to dispute certain requirements set down by the professional bodies. Whilst AUS 1 clearly required auditors to disclose any departure or non-compliance with accounting standards, many auditors argued that not all departures should be disclosed, particularly if there was no hindrance to the truth and fairness of the financial reports, as was detailed in a letter from KPMG:

The statutory duty of a company auditor...is basically to report on the overall truth and fairness of the accounts...therefore...where there has been a departure from an accounting standard issued by the profession and that departure is considered to have a material effect...but [an] alternative accounting policy adopted by the client is an acceptable one...[and] the departure...and the alternative policy adopted are adequately disclosed in the accounting policies note and we are satisfied that with those disclosures the true and fair view...is not impaired...we will issue an unqualified audit report (Archive File 97, 1985).

The union of the business community and auditors, in questioning accounting standards, put forward by the profession, were creating even greater controversy as the profession's reputation was once again deteriorating.
THE MOMENT OF ENROLMENT - ASSURING A PROFESSION THAT A
CONCEPT STATEMENT ON MEASUREMENT IS NEAR

As indicated previously, the stated aim of the conceptual framework was to serve as the basis of accounting standards which would be, thereby, more consistent. In terms of the framework controversy again erupted with the release of SAC 4, as comments received by the AARF indicated the dissatisfaction with what had been developed. For example, the general manager and director of one Australian company stated that SAC 4 (Cooper 1994, 361) was

Confusing, internally inconsistent, lacking practicality and a threat to the public reputation of the accounting profession in Australia (cited by CPA News, April, 1993, 1).

Resulting in the indefinite suspension of the frameworks' mandatory status. SAC 5 has also proven a stumbling block for the framework's success.

Adopted for the purposes of this study, a conceptual framework is a mobilisation strategy. Also, as indicated in the introduction to this chapter, conceptual framework projects are a means of overcoming dissidence and enroling others to the common cause of allowing the
profession to discover and implement means of improving accounting practice. Accordingly, the AARF proceeded with its conceptual framework project. Prospects of the near release of a measurement concept statement (SAC 5) looked promising in July 1994, when the AARF issued Proposed Program for the Development of Concepts on Measurement of the Elements of Financial Statements. According to this publication, a monograph on measurement was to be issued by September of 1995 (AARF 1994, 25). As time has shown, this was a very optimistic prediction, and possibly unfounded. The stages to completion were as follows:

(1) **Preparatory Program (July 1994-September 1995)** - during this period the Foundation was to develop and issue an accounting theory monograph and selected papers on the issue of measurement, looking at particular industries. Once this was completed the following was to take place:

- Review feedback on monograph, issue papers and invitations to comment. Incorporate steps to address issues raised;

- Conduct hearings as appropriate on measurement issues;

- Review feedback from hearings; and
➢ Review feedback on the due process and constituent input in respect of progressing the development of a Statement of Accounting Concepts on measurement.

(2) Development Program (October 1995-March 1997)

Determine the approach to be followed in the development of the Concept Statement. The approach that was to be undertaken by the Board was the following:

➢ Consider a key questionnaire

➢ Develop an exposure draft

➢ Issue the exposure draft for comment

➢ Conduct seminars on the exposure draft

➢ Prepare a collation of the submissions made on the exposure draft and publish a brief summary of collation

➢ Conduct hearings on the exposure draft

➢ Review submissions and comments made at the hearings and

➢ Publish findings.
(3) Finalisation Program (From April 1997)

➢ Develop Concepts Statements; and

➢ Issue Concepts Statements.

In an invitation to comment on the proposed timetable there was an overall acceptance of the project as it was envisaged that

[a] concept statement on measurement will greatly enhance the usefulness of the existing framework and, hopefully, resolve deficiencies in the somewhat adhoc approach to measurement in current practices (Department of Treasury and Finance, Archive File 170, 1994).

Some respondents also raised particular concerns. Ronald Ma from Griffith University expressed concern that SAC 5 would meet the same fate as the FASB's measurement statement, SFAC 5, did in the United States, warning the Foundation to learn from the lessons of history:

The FASB concepts statement on Recognition and Measurement (SFAC 5) was regarded as either unsatisfactory, incomplete or a failure. We would not want to see the Australian project follow the FASB and arrive at the same outcome (Griffith University, Archive File 170, 1994).

On the other hand, some respondents were concerned that the proposed timetable was too lengthy considering that the public sector was also
working on solving the measurement dilemma, calling on the Foundation to

look to the extent to which the process might be shortened. The comment is made in the context of the Commonwealth Public Sector pushing ahead with the measurement question, not only in respect of the non-current assets of GTE's...but also by recommending in the draft guidelines for the financial statements of departments that the GTE Guidelines for valuation be adopted there as well (Australian National Audit, Office Archive File 170, 1994).

Concerns such as this were in direct contrast to respondents who believed that the timetable proposed by the Foundation was not a realistic outlook. This apprehension was shared by the Australian Society of Certified Practicing Accountants in a submission made to the AARF, in which it was declared that the Society believed

that the proposed timetable may be ambitious, and that more time may be required at each stage of the program to allow sufficient consultation and dissemination of information (Australian Society of Certified Practicing Accountants, Archive File 170, 1994).

Furthermore the Society believed that acceptance of the program on measurement was of paramount importance.
It is particularly important that the concepts of measurement arising from this program are well accepted and supported within the profession and by other interested parties (Australian Society of Certified Practicing Accountants, *Archive File* 170, 1994).

The AARF also conceded that the task at hand was a difficult and controversial one and acknowledged that the development of SAC 5 might take longer than they had anticipated. However to the outside business community there was always reassurance, as the AARF mobilised. The AARF, through professional publications, claimed that it was well on the way to completing a monograph on measurement. Reiterating this assurance, the Director of the Foundation, Warren McGregor, publicly claimed in 1995 that a monograph would be issued before long:

Far from being the last of the concept statements [i.e. SAC 4] ...McGregor says the Foundation is hard at work preparing material for what will eventually become SAC 5...The second area we are looking at is the measurement of the financial element. We have recognised and defined these elements in SAC 4 but now the challenge is to set in place a framework for measuring them...Again we hope to have a first draft of the monograph soon and we will issue it to the public as soon as possible (Howard 1995, 3).

In early 1997, a representative of the AARF declared that a monograph on measurement was due for publication in September of that year with SAC 5 expected to be released two years later. There were however others
within the Foundation who were unaware that work on the monograph and eventual SAC 5 was being conducted. In addition the AARF was divided as to the stance of the Monograph.

Continuous difficulties and internal disagreements between Chris Warrell, who had been commissioned to write the monograph, and the Foundation about how the monograph should be written meant that the completion of Accounting Theory Monograph number Ten took much longer than expected. Published in December 1998 but not made available till February the following year, this much-anticipated monograph has been issued without the name of Chris Warrell, who had withdrawn his authorship from the monograph shortly before publication.

According to Warrell, the monograph was ready for publication in 1988, however the AARF had failed to have it published. Warrell attributed the delay experienced in issuing the monograph to his inability to produce a monograph that met the requirements of the Foundation:

the Australian Accounting Research Foundation was so impressed with the monograph and its criticisms of the Conceptual Framework, they have failed to publish it (Interview with Warrell 1997).

Ironically, the accounting theory monograph on measurement was issued just over a year after the Corporate Law Economic Reform Program
(CLERP) proposals were made, giving a clear indication as to the government's want and ability to tackle the problem of measurement. The Corporate Law Economic Reform Program was announced by Treasury in 1997 with the aim of reviewing the key areas of regulation affecting business and investment activities (Commonwealth of Australia 1997, 1). One of the areas under review is accounting standards, with CLERP aiming to make accounting standards more useful for business. Proposal number eight of CLERP considers compliance with accounting standards and requires

the AASC [to] give a high priority to addressing the outstanding issues in the conceptual framework for general purpose financial reporting (Commonwealth of Australia 1997, 61).

The Corporate Law Economic Reform Paper claimed that

Australia should promote moves internationally to introduce market value accounting and work towards addressing fundamental issues such as measurement (Commonwealth of Australia 1997, 61).

Perhaps once again the Foundation was pushed into mobilisation, as it became apparent that the public sector would move forward with measurement even if the private sector refused to be committed to a particular method of measurement. However, publicly, the influence of the
CLERP proposal was not acknowledged by the AARF with McGregor claiming that the

Monograph helps fulfil an aspect of the goals the Government set in the standard-setting reform paper (Ravlic 1999, 39).

THE COMMISSIONING OF ACCOUNTING THEORY MONOGRAPH NUMBER

TEN - A SILENT CONTRIBUTOR TO A CONTESTABLE ISSUE

Even though Warrell has not been formally named as the author of the monograph his role in the development of the accounting theory monograph was substantial. In appreciation of the work done by Warrell an acknowledgment can be found in the monographs forward. Here, the reason for Warrell's controversial move of withdrawing authorship was attributed to the number of changes made by the Foundation for the purposes of publication.

[Warrell's] work has been extended to discuss other perspectives on some issues, re-ordered and rearranged in some areas, and edited for publication as a part of the series for accounting theory monographs. Because of these changes, Mr. Warrell declined to be formally attributed the authorship of this monograph (AARF 1998, xix).

Chris Warrell has a long-standing history of involvement with the professional bodies and their relevant committees. Stemming from the
1970s, when he held the position of Chairman on a committee for inflation accounting, Warrell has had a continued influence on the accounting profession through associations with the professional bodies and various committees. As a member of the Australian Accounting Standards Board (AASB), Warrell has been directly involved with the preparation and publication of numerous accounting standards and concepts and today continues to play an active role within the accounting profession as a member of the Harmonisation Sub-Committee.

Warrell's extensive dealings with the Foundation over the years has meant that this was not the first time that he had decided to withdraw his authorship from a publication which the Foundation had commissioned him to write. Warrell's first contact with the AARF was early in the 1970s when Kenley, the then director of the Foundation, approached Warrell to prepare a pamphlet on the various accounting systems that had been proposed to deal with price changes and inflation (Interview with Warrell 1998). Entitled A Comparison of Accounting Measurement Systems, the pamphlet was published in August 1975 as an insert to The Australian Accountant Journal but was published without Warrell's name as author, as he refused to have his name associated with the 1975 publication. Warrell has argued that,
the pamphlet did not have my name as author for much the same reasons as have occurred this time: the Chairman of the Accounting Research Committee...did not like my use of the personal pronoun, nor did he like the fact that I placed emphasis on my own interpretation of an "ideal" system. Accordingly the work was revised by [Foundation representatives] and I refused to have it issued with my name shown as author (Interview with Warrell 1998).

Warrell's involvement with Accounting Theory Monograph 10 began towards the end of 1986 when Kevin Stevenson, the then Director of the AARF, approached Warrell to prepare a monograph on measurement. For some time prior to his appointment, Warrell had an interest in the general area of measurement, sitting on committees and actively participating in literature that had been written on the issue. His appointment was a logical continuation of this interest.

Upon his appointment as author of the measurement monograph, there was no formal contract, simply an assurance by the Foundation that there would be no repeat of the problems encountered with the 1975 publication. In relation to the directions given for the undertaking of such a project, Warrell was advised that the monograph was to be comprehensive and to use his previous work as a basis. He was prompted not to concentrate only on the failures of historical cost but also to
consider its advantages, treating the conventional method as he would the various alternatives. After all, this was to be the measurement component of the conceptual framework and Warrell was advised to use ... earlier effort[s] as the basis but to make the coverage much more comprehensive. This was, after all, to be the Discussion Paper for the measurement part of the Conceptual Framework ... the only advice that I can recall was that I should not merely rubbish the use of historical cost, but should include an analysis of its advantages and disadvantages in much the same way as I was expected to deal with the other proposals (Interview with Warrell 1998)

The First Signs of Trouble

Warrell's version of the monograph was written from the point of view that using the modified historical cost method in present day accounting to value and measure the worth of assets was not appropriate, nor was the assumption that money value was constant, realistic:
In a conventional accounting system using a modified historical cost approach, we may aggregate costs incurred, or valuations made, at different times and denominated in dollars relevant to the several dates of acquisition or valuation. The result is simply a total cost or valuation expressed in undifferentiated dollars, and accordingly its interpretation is difficult and should be approached with caution. The reason usually given in texts for this failure by accountants to recognise changes in the value of the unit of account is that they follow a constant money value convention or assumption, but I find this explanation unsatisfactory. Accountants are not stupid as to assume that the value of money is constant, but they have chosen to ignore changes in the value of the monetary unit (Warrell 1995, 5).

In an effort to have accounting practice move away from what he saw as unrealistic assumptions, Warrell, in his monograph, referred to and advocated the use of a relative current value system which, in the published monograph, was referred to as the *Ideal Formulation Conventional Accounting Model* (AARF 1998, 1). Warrell supported this method as it acknowledges the changes in the general level of prices and logically follows the stated objective of accounting and concedes that sometimes the perfect method has to be sacrificed in order to achieve an adequate outcome:
...the conclusion follows naturally from the stated objective of accounting and the development of the argument logically from there. The problem remains that obtaining satisfactory valuations is extremely difficult in many circumstances and accordingly we may have to resile from the "ideal" in order to achieve a practical solution (Interview with Warrell 1998).

The first indication that trouble lay ahead can be dated back to July 1988 when the first draft of the monograph was submitted to the Foundation. It took four years for the AARF to respond. During this time, Warrell corresponded with the Foundation making it aware of certain concerns that he had in relation to the monograph. The AARF finally responded in August 1992 in a meeting of Warrell and Jim Paul, a representative of the Foundation, responsible for the preparation of the eventual Statement of Accounting Concept on measurement, and the Foundation's Director, Warren McGregor. Little was resolved by the meeting's conclusion, with Warrell troubled that concerns he had raised in correspondence to the Board during 1991 had not been addressed. Warrell considered the board's failure to address his concerns threatened his ability to sustain a long-term involvement in relation to the preparation of the measurement monograph.

One of the first points of disagreement was in relation to the existing
Concept Statements. According to Warrell, the Foundation required the discussion paper on measurement to accept the existing Concept Statements using them as a basis for all subsequent work. Warrell did not agree with this requirement arguing that past developments could and should be altered if they were seen to be inadequate in light of new developments:

to treat the Concepts Statements as set in stone is not only dangerous but dishonest if one disagrees with them. We must be prepared to go back to the earlier statements if, in the process to developing the later ones, we decide that we have adopted the wrong approach (Interview with Warrell 1998).

One of the concerns held by Warrell was that if the Concept Statements were not fully accepted neither would any other developments which were grounded on such a basis:

From purely a political point of view, adoption of the Concepts Statements as the only foundation for development of later discussion papers or statements means that the accounting public will accept those later papers and statements only to extent that they have accepted the Concepts Statements. It is most important that the accounting profession and the business community is educated to accept the role of the conceptual framework, but it cannot and must not be forced upon them (Interview with Warrell 1998 emphasis added).

Warrell argued further that current practice could not and should not be
criticised for its failure to meet the criteria of the Concept Statements but should be criticised for failing to meet the sound reasoning of accounting. This was in direct contrast to what was desired by the Foundation:

Jim appears to want me to criticise current practices purely on the basis that they do not meet the criteria set down by the framework. In contrast, I want to provide a basis for criticising the existing system based purely on logic so that the accounting community may improve the existing system if that is as far as they are prepared to go. If they are prepared to go all the way, then they will be close to accepting the principles enunciated in the framework, but the last thing we want to achieve is to require total acceptance or total rejection of the principles which I believe should be enunciated in the measurement project.

The conceptual framework, according to Warrell, should not be forced on the community if considered to be unacceptable, rather

[t]hey must be led by argument and education to accept the framework: to force the framework upon them as the only point of reference is likely to be counterproductive. We do not want to repeat our mistakes of current cost accounting (Interview with Warrell 1998).

The extent of disagreement between Warrell and the AARF was not restricted to a difference of opinion as to the role that the existing Concepts Statements should play in the development of the measurement monograph. Rather, there were various issues that caused Warrell and
the Foundation to be at opposite ends of the spectrum, resulting in many suggested changes to the monograph. Given the AARF's undertaking not to interfere or alter his work on the monograph, it is little wonder that the suggested changes were met with an angry retort from Warrell:

[y]ou have engaged Warrell to write it and the result will be a Warrell document in Warrell style. If this is not acceptable, then by all means rewrite it in an acceptable style so long as you remove Warrell's name from the cover. This comment applies to not only style, but also content (Warrell Interview 1998).

One of the issues that presented a problem was whether or not there was a place within the monograph to discuss the importance of the definition and recognition criteria of assets and liabilities. Warrell believed there was. However, there were members of the AARF who did not agree, claiming it to be beyond the scope of the monograph. Interestingly, the monograph issued devotes part of a chapter to the topic.

A further area of disagreement was the need to acknowledge that the dollar is not a stable monetary unit. Warrell strongly believed that if changes in the valuation of the monetary unit were not recognised, the result would not only be
bad for accounting measurement, but has also affected the state of the economy, the failure rate of businesses and the equity of our taxation system (*Interview with Warrell 1998*).

Warrell argued that existing methods and concepts, if found to be inadequate, should be changed, as maintaining incompetent methods of accounting would hinder any chance of improving present-day accounting procedures. Warrell argued that problems had to be addressed and rectified even if that meant criticising existing standards or concept statements. If existing developments were found to be inadequate then changes were needed and, according to Warrell, society had to be aware that improvements were required:
To delete references to such things on the grounds that they have no place in a paper on accounting measurement is to ignore the chicken and egg effect. To what extent is our failure to make progress in amending the accounting measurement system a function of the failure or resistance of society in general to recognise associated problems? Or is it more a case of society failing to make progress because the matter has not been handled satisfactorily by accountants? I happen to think that there are arguments both ways, but what is important is that the matter is far too serious to take a "that is not our concern" approach. It is not as though I have spent much time or space in discussion of these issues in the paper. They are introduced briefly to emphasise the importance of understanding the issues involved not only for accountants, but for society as a whole (Interview with Warrell 1998).

It must be made clear that Warrell did not oppose all suggested changes. Some changes were made to the draft as a result of its review by the Foundation; however, there were changes with which he was in agreement.

Late 1994 saw further changes proposed by the AARF. In response, Warrell wrote to the Foundation suggesting that his name be removed from the monograph as author and that the Australian Accounting Research Foundation take over the writing of the monograph. The Foundation convinced Warrell to stay on and so he did, undertaking further work towards the completion of the measurement monograph. This union between Warrell and the Foundation continued for almost four years,
ending in January 1998 when Warrell found changes to the monograph too drastic and was no longer prepared to associate his name with it informing the Foundation that he was withdrawing his authorship:

Over the past few weeks I have tried to address the revisions Jim sent me, but the further I progress the more I recognise that I am being asked to comment on material which bears only limited resemblance to what was submitted. This is despite the original assurances, the subsequent correspondence and yet further assurances. I have had enough and advise that I shall be having nothing further to do with this publication for AARF (Interview with Warrell 1998).

This point of frustration was reached by Warrell as the changes, which included modification of style, content and organisation, had the ultimate effect of distorting the meaning and impression that was intended. The changes in question ranged from the simple prohibition of using first person dialogue, including in situations where a personal view was to be expressed or experience was to be recounted, to other more drastic changes that Warrell considered served to damage the logic and structure of the monograph.

Acknowledging that all methods have deficiencies, be it the conventional method or the proposed method, Warrell's greatest aim was to ensure that those using financial statements became aware of the difficulties that existed in the area of measurement as a whole resulting in inadequate
financial reporting techniques. To do this, Warrell believed that there was a need, not only to emphasise the deficiencies of the conventional accounting model, but also equally to deal with the deficiencies of the proposed method. Accountants had to be

aware of the deficiencies of the systems within which we have to operate so that we may advise our clients and the community generally of the limitations of the information which we help to provide, and on which some of us have to express an audit opinion (Interview with Warrell 1998).

The published version of the monograph does not take this approach, rather there is a clear focus on the deficiencies of the conventional accounting models. By doing this, it was hoped that the users of financial statements would become more familiar with, and gain a better understanding of, the limitations of the conventional accounting model, considering that the perfect method of measurement may never be attainable.
An important task of this monograph is to identify deficiencies of the conventional (historical cost based) accounting model. This may assist preparers, users and others with an interest in general purpose financial reports to understand the limitations of the information contained in financial reports prepared under that model, and identify possible improvements to that accounting model (AARF 1998, 12).

The aim of this may not have been to assist in the change to an alternative method but rather to assist in the preservation of the conventional accounting model:

The following extracts from the Concepts Statements provide the broad objective for identifying appropriate measurement policies. This is the target of this monograph. The ability to achieve that objective will be modified by constraints imposed by the qualitative characteristics of the financial information, but the objective of general purpose financial reporting will always form the goal of this discussion, however unattainable that goal may be if viewed in the complete sense. It is important to remember that, by having such a target and recognising why it is unlikely to be possible to ever "hit the bullseye", the meaning and limitations of financial reports prepared under the conventional accounting model should be more thoroughly understood than at present (AARF 1998, 25).

To a limited degree, Warrell felt somewhat dominated by the AARF. Once this domination had reached a point where the writing did not resemble his own, Warrell refused to accept the directions received. Ultimately,
Warrell distanced himself from the monograph.

**ACCOUNTING THEORY MONOGRAPH NUMBER TEN: MEASUREMENT IN FINANCIAL ACCOUNTING - A STEP TOWARDS THE FUTURE OR A DEFENCE OF THE PRESENT?**

The Foundation has described the monograph as the first formal step in the process of developing a Statement of Accounting Concept on measurement. It is to be a monograph which will activate thought and debate on the measurement issue and eventually lead to a Concept Statement which will have the primary function of guiding Boards when developing uniform and logical standards (AARF 1998, xix). It is also a monograph that has been a long time in the making, a feature evident within the monograph itself as reference is made to the development of the conceptual framework as a recent endeavour:

> In recent years the accounting standard setting bodies in several countries and the International Accounting Standards Committee have taken steps to establish a conceptual framework for general purpose financial reporting within which to develop and improve financial reporting practices (AARF 1998, 9).

Discussing the background and scope of the monograph, it was stated that
the objectives of the monograph included the following (AARF 1998, 12):

(a) identify issues that the Australian Accounting Standards Board and Public Sector Accounting Standards Board (the Boards) may need to address in developing measurement concepts;

(b) discuss how those issues may be addressed;

(c) stimulate debate on the issues involved; and

(d) alert readers who were not already aware of the fact that there is not, and cannot ever be, a perfect accounting model.

The overall objective of the monograph was to evaluate alternative bases and techniques for measuring the elements of financial statements in order to satisfy the objectives of general purpose financial reporting and the qualitative characteristics of financial information. The evaluation focuses on the conventional (essentially modified historical cost) accounting model currently practiced by most reporting entities and reflected in most Australian accounting standards, and other (essentially current value) accounting models (AARF 1998, 1).

Although the stated objective specifies that alternative techniques will be evaluated, it would seem, from the very outset, that the favoured method by those preparing the monograph is that of the ideal formulation
accounting model. The monograph concluded that

the model that comes closest to the conceptual ideal is the model termed "Relative Current Value Accounting" (AARF 1998, 1).

The adoption of a current value accounting model was thought to be the way to improve and overcome the deficiencies of the conventional accounting model. The preferred method of relative current value accounting subsequently gives rise to the ideal formulation accounting model. Under the ideal formulation of the conventional accounting model, an asset's recoverable amount would be measured in relation to its "value to the entity". Thus the carrying amount of the asset would be its original acquisition cost or its revalued amount, the only constraint being that the revalued amount can at no time exceed its value to the entity (AARF 1998, 1).

Before one is able to determine the "value to the entity" of an asset, consideration must be given to determining how particular costs of the asset will be treated. In other words, a decision must be made as to whether the costs associated with the acquisition or enhancement of an asset is to be treated as part of the cost of an asset and thus capitalised or whether it should be expensed. To assist in deciding whether to capitalise or expense the cost of an asset, the monograph proposed a general rule
which stated that

under the conventional accounting model, any outlay of future economic benefits which is necessarily incurred to acquire future economic benefits should be treated as part of the cost of an asset, provided that the outlay can be measured reliably (AARF 1998, 3).

Where an asset is acquired from an external entity, the monograph considers that measurement will be an uncomplicated process of determining asset costs. Outlays such as delivery and insurance costs should not just be considered as part of the acquisition cost simply for ease, but should be properly allocated in order to follow correctly the measurement process (AARF 1998, 113). In situations such as where an entity constructs its own assets, it is advised that various costs must be expensed. However, certain situations may give rise to complications. For example, the monograph considers the situation where during construction, the construction team has to be trained how to complete a segment of the project due to its inexperience. The cost associated with getting the construction team ready should not under any circumstances be perceived or treated as a cost of acquisition but should be expensed. Secondly where additional costs are incurred due to labour strikes, these costs also should be expensed under the method proposed and not
considered to be part of the acquisition cost (AARF 1998, 114).

Adhering to the proposals of the monograph, the carrying amount of an asset can at no time exceed its "value to the entity", which is considered by the monograph to be the most relevant measure of an entity's assets. The guidelines that were established to measure the value to the entity of assets include the following (AARF 1998, 5):

**Maximum Value** - this is the current cost of replacing the asset's service potential or future economic benefits (depreciated replacement cost).

**Minimum Value** - this is the net proceeds of immediate sale.

**Present Value from Use and Eventual Disposal** - The value to the entity when the asset is not worth replacing at its current cost, but is worth continuing to use rather than being sold immediately.

Following the "value to the entity" approach is advocated as it is argued that using this model enhances the information that is prepared under today's conditions. This is justified by the fact that both assets and liabilities are measured each reporting date at their value to the entity (AARF 1998, 7). Furthermore, relative current value allows for the following advantages (AARF 1998, 343):
Its recognition of changes in the value of the monetary unit in the statement of financial performance. Without such recognition, the comparability of information between reporting periods and/or between entities is diminished significantly;

Its recognition of changes in the value to the entity of assets and liabilities as soon as those values, or the major elements in their calculation, are discernible in the market place; and

Its adoption of a comprehensive adoption of profit, so that the net profit should represent the minimum improvement, in real terms, of the owners equity in the entity's assets.

**Never Fear Tradition Is Here**

Although the AARF is claiming to be working towards the development and eventual implementation of an improved method of measurement, the results of the Foundation's activities often contradict claims made. The monograph's favoured method of measurement, relative current value accounting, is best described as an altered historical cost method, as was AAS 10 *Accounting for the Revaluation of Non-Current Assets*.

Issued in 1981, AAS 10 specifically deals with the revaluation and disposal
of non-current assets. At the time of implementation the justification of AAS 10 was to ensure that a consistent basis for the revaluation and disposal of non-current assets was implemented. Successfully achieving an overall consistency with the revaluation of assets would also result in AAS 10 satisfying the objective of providing useful information to users for making and evaluating decisions as specified in SAC 2. Concerned primarily with how to account for the revaluation of non-current assets, the overall purpose of AAS 10 was to (ASCPA 1992, 289):

a) Require that the carrying amount of a non-current asset of a reporting entity be changed (other than by way of a change in accumulated depreciation or by accounting for a decrement to recoverable amount) only by revaluation of the class of non-current assets in which that asset is included;

b) Prescribe the methods of accounting for the revaluation of non-current assets and for the disposal of such assets after revaluation;

c) Require that upon revaluation the carrying amounts of non-current assets do not exceed their recoverable amount;

d) Require that when, and only when, the carrying amounts of non-current assets exceed their recoverable amount, downwards...
revaluations of those assets are to be made to revalue them to their recoverable amount;

e) Require disclosure of the revalued carrying amounts of non-current assets and accounting policies in respect of the bases, frequency and methods of revaluations.

Both AAS 10 and the accounting theory monograph, although issued almost two decades apart, advocate an altered historical cost method. A commonality shared between the two is the usage of the term "recoverable amount" and the requirements that must be met in relation to an asset's recoverable amount. In both the standard and the monograph, the recoverable amount of an asset plays a pivotal role in meeting the requirements set down.

According to AAS 10, in relation to an asset the term "recoverable amount" can be defined as:

the net amount that is expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal (ASCPA 1998, 291).

The accounting theory monograph too defines the term "recoverable amount". However, the definition utilised, whilst very similar to that put
forward in AAS 10, has been adapted to meet the discourse of the conceptual framework and the already-issued statement of accounting concepts. According to the monograph an asset's recoverable amount is

The present value of the net cash inflows or saving in net cash outflows expected from the most efficient deployment of the asset—that is, either its use and subsequent disposal or its immediate disposal (AARF 1998, 73).

The importance of the recoverable amount in both AAS 10 and the monograph is that ultimately, the value assigned to an asset is restricted to the recoverable amount. Like AAS 10, the accounting theory monograph has chosen to uphold the presumption that an asset should not be valued at an amount greater than would be recovered from its use or disposal. Therefore, in keeping with the accepted norm, the monograph requires that the carrying amount of an asset can, at no time, be greater than the asset's recoverable amount, measured in the monograph as its value to the entity. Consequently, under the ideal formulation of the conventional accounting model it is proposed that:
the recoverable amount of an asset would be measured at its "value to the entity". Therefore, the carrying amount of each asset would be based on its original acquisition cost or revalued amount, provided that it does not exceed the asset's value to the entity (AARF 1998, 1).

Whilst the monograph advocated a change to an alternative method, it would seem that the preparers of the monograph were not willing to move away from the conventional accounting method, appearing to continuously defend its use throughout the monograph.

The Defence of the Present

Repeatedly, the monograph states that its vital task is to undertake the identification of and evaluation of the limitations of the conventional accounting model, considering not only the advantages and disadvantages of its use but also the objectives and characteristics of its use. This was considered to be a necessary step in order to assist users and preparers of general-purpose financial reports to realise adequately and comprehend the limitations of information provided by current-day financial reporting practices.

However, underlying motives have to be questioned for two reasons. Firstly, most users of financial statements already understand the limitations of the conventional accounting method, making its extensive
coverage of the disadvantages fruitless. Secondly, the monograph itself seems to have gone to great pains to defend the continued use of the conventional accounting model.

Whilst the monograph discusses the perceived strengths of the conventional accounting model and concedes that valuing some assets, particularly self-constructed assets, can be problematic using the conventional accounting model, it also made clear that the alternative method proposed was less than perfect. Concluding that relevant financial information would be omitted from the financial reports under both methods, the monograph calls for those persons who advocate a departure from the conventional accounting model, to demonstrate to relevant parties that the benefits will far outweigh the costs. The justification for such a claim was based on the findings of past studies, which looked at just how useful information on changing prices was to users of financial statements. According to the monograph, no evidence was found suggesting information on changing prices was useful to users of financial statements:
Despite noting these deficiencies of the conventional accounting model and the ideal formulation of the conventional accounting model, this monograph does not condemn the use of that model. It acknowledges the resilience of the conventional accounting model, and argues that it is incumbent upon those who modify or replace the model to demonstrate that the benefits to users of the changes are likely to exceed the costs. Many of the empirical studies on the usefulness of information about the effects of changing prices did not find this information to be useful to users (AARF 1998, 2).

The monograph also argues that, despite years of criticism, the conventional accounting model has remained unscathed and before a change is enforced, one should consider why it is that this method has withstood years of criticism. Again, repeating the need to ensure that the benefits of a change outweigh the costs.

Despite the criticisms of the conventional accounting model made in this chapter, it is important to note the resilience of the model, which has remained in use despite frequent criticism over many years. It is incumbent upon those who would change the conventional accounting model in the future (either by adopting another model or modifying the conventional accounting model) to take account of the reasons for its resilience in developing proposals for change, and demonstrate that the benefits to users of those changes are likely to exceed the costs. Any changes should, to the extent possible within the model adopted, retain the strengths of the conventional accounting model (AARF 1998, 122).

If this is the case, then one must ask why is it that individual standards
(such as superannuation, which will be considered in depth later), have advocated alternative methods of measurement?

Why is it that this monograph, which is to portray a possible way of change, has portrayed its inability to let go of the conventional accounting model? Whilst the business community calls for a method which will help make our financial reports more accurate, the profession develops a monograph that advocates an altered historical cost model as done before in AAS 10. Evidently the Australian Accounting Research Foundation, regardless of what it portrays, seems to have a fear of moving away from the past, letting go of tradition. On the other hand, the profession did offer alter alternative but it was rejected by the business community. Could it be that the profession should openly state that there is no one "appropriate" method for all situations, rather than act as though it is only a matter of time until such a method is found.

This apprehension of moving away from what is considered to be the norm is a weakness of the accounting profession that seems difficult to overcome, for history shows that challenging the norm has never been the profession's forte. Despite a generation of bombardment, historical cost has survived. Viewed as an unchallenged norm, it has been seen as the
only way to measure assets. The resilience of the historical cost method was recognised well over three decades ago when Kohler declared that historical cost was and remains

the basic standard of assets valuation which has been built into the corporate financial statements of 1963 as well as those of 1936 (Kohler 1963, 39).

When the AARF tried to move away from the norm and implement radically new proposals for example, CCA and SAC 4, harsh criticism was encountered. The SAC 4 experience is still very much etched in the minds of those involved. Warren has described SAC 4 as

a very controversial issue, and we need to take our time. SAC 4 was a very painful experience, which is still very clear in the minds of those involved in it. We will have to deal with such challenges that face us. We need to do it, to get a framework in place, to help. It will happen but when? (Interview with Warren McGregor 1997).

The ramifications of SAC 4 were so great that the Foundation does not wish to encounter such conflict as the road to SAC 5 continues to be ploughed. It has chosen, therefore, to remain as close to the norm as possible. The need to ensure that a majority of the business population is satisfied may be the reason why the Foundation recently announced that it is highly unlikely that only one Concept Statement will be issued on
measurement. Rather it was stated by McGregor that

Several documents [will] emerge from the monograph. A SAC on the use of present values in accounting will be the first to emerge from the monograph (Interview with Warren McGregor 1997).

It appears that while the Foundation wants to be seen as continually developing, there is no desire to be seen to be abandoning tradition, minimising complexities associated with the combination of change and differences of opinion.

It is this very need of avoiding unnecessary complications, due to a difference of opinion, that has often disabled any change that had been initiated. It has also provided an excuse for why the issue of measurement has not been addressed. Accordingly, in the face of years of criticism, historical cost has remained; the justification for the lack of development is that serious differences of opinion develop when one tries to establish the current realizable value of many types of plant and equipment without actually selling them. From this point of view, original or purchase cost is a "fact" that can be proved from a copy of a contract and the accounting record of the transaction, whereas current value is likely to be only one man's opinion (Smyth 1970, 22).

Alternatively, the reason for a prominent display of endorsement for the conventional accounting method may also be attributed to the fact that a
better method has not been developed. Therefore, if you cannot develop a new and improved way of accounting for assets, then the traditional somewhat inadequate method for today's environment is maintained.

Retaining historical cost, despite its disadvantages, seemed in the past and again today to be the best course of action to take, creating little disturbance, keeping the peace. Irrespective of how wrong or inadequate a method is it would seem that if it was the norm and widely accepted and used then looking for, or eventually implementing, a change was, and still is, considered dangerous. A thought shared during the late 1960s by Zlatkovich (1967, 45) who in reply to a paper presented by Chambers declared that:

There is an implicit criticism ... of the organized profession's timidity about experimentation and of its myopic concentration on what has been and is rather than on what should be or what might be better ... the long-standing requirement that a procedure be "generally accepted" to qualify for an acceptable opinion has discouraged experimentation with alternate procedures to such an extent that it is difficult to point to a new procedure that did not stem from a new law or a new mode of transacting business. I cannot be very sanguine about prospects for a thawing of this ice reef (Zlatkovich 1967, 45).

Despite trying to satisfy a majority, it would seem that the accounting theory monograph has not been well received. For years the business
community, particularly accountants in public practice, have had to deal with the dilemmas of historical cost and the endless solutions that have been proposed. Now that the monograph has been released it would appear that accountants are worn out with other pressing issues such as harmonisation and lack the time to give the monograph the consideration that it requires (Ravlic 1999, 41). Furthermore, a majority of respondents to date believe that the monograph is simply moving back in time, creating a sense of déjá vu. He [Jim Dixon, technical director at Pitcher Partners] asserts that the themes raised in the new monograph have been canvassed before on many occasions ... it is like revisiting old ground. What the monograph does is put many of the old themes back to be considered in the current environment (Ravlic 1999, 41).

Although a Concept Statement on measurement is an essential part of the conceptual framework, it is more than likely that it will be quite some time before the Foundation develops SAC 5. Whilst the Foundation portrays a sense of urgency in completing SAC 5, openly declaring that the development of a concept statement on measurement is a priority of the Boards, in reality a different story is told.

According to a representative of the AARF, the public hearings and debates that are to be conducted on the issue will not take place for some time as the Australian Accounting Standards Board cannot find the time to fit the
measurement issue into its hectic work schedule. Delaying yet again the issuing of SAC 5. After all, it had taken thirteen years for the monograph to be completed, perhaps it will be another thirteen years before the Concept Statement is issued, unless we again experience double-digit inflation. The problem being that historical cost will well and truly be etched into the thoughts of Australia's new generation of accountants.

Given the historically contentious nature of the measurement issue and its importance to the successful completion of the conceptual framework, one must ask why the profession/AARF initiated the conceptual framework in the first place. Great effort has been put into a project that no longer has mandatory status within financial reporting, and one of its fundamental building blocks, namely SAC 4, is not operational without SAC 5. This is particularly pertinent given the failure of the FASB to successfully develop and implement a conceptual framework which subsequently served as the model for the efforts of the AARF.

The folly of the search for an Australian conceptual framework was pointed out by Sterling who predicted in 1985 that measurement would stymie the project just as it had that of the FASB. Possibly, proving to be the downfall of Australian conceptual framework, a problem for now being
overcome by the AARF adopting what Sterling called a Vietnam solution, that is "...declaring a victory and then retreating as fast as possible" (Thomas 1985, 139).

The next chapter will illustrate how the AARF has departed from its own objective of consistency in accounting practice as well as contradicting its support of historical cost in monograph ten by issuing accounting standards prescribing the recognition of price changes.
CHAPTER 7

INCONSISTENCY AND DIVERSITY OF MEASUREMENT METHODS IN (A) THE PRIVATE SECTOR AND (B) THE PUBLIC SECTOR

Continuing on previous chapters, which highlighted the difficulties and the profession's inability to find an alternative method of measurement, this chapter will examine the complexities and diversity of asset measurement that exist today in both the private and public sector. In doing so, it will be demonstrated just how controversial the issue of measurement is in Australia today and how the continual hesitation to set down concrete guidelines by accounting authorities has led to misinformation being provided to users of financial statements.

Segregated into two sections, this chapter will look at how various present day standards deal with the issue of measurement whilst no formal guidelines or Concept Statements have been set down. The first part of the chapter will consider asset measurement within the private sector. Focus will be placed on two particular standards, AAS 25 Financial Reporting by Superannuation Plans and AASB 1023 Financial Reporting of General Insurance Activities as these two standards have moved away from the norm of historical cost to advocate alternative measurement methods. The second part of the chapter will turn to the public sector examining how recent reforms have seen drastic changes in the asset valuation methods utilised.
INTRODUCTION

Although almost two decades have passed since the end of the controversial 1970s, it is clear that no adequate resolve has been reached in either the public and private sectors. Whilst the public sector has moved ahead of the private by advocating the use of one particular method, namely, deprival value, the professional bodies prefer to keep the private sector waiting. Not permitting private sector business to be committed to a particular method, choosing to allow inconsistencies to continue in the preparation and presentation of financial reports. The continual procrastination by the AARF on this issue has resulted in a diversity of methods being applied to the valuation of assets throughout the business community.

The failure to resolve adequately the issue of asset measurement during the 1970s and the delay in developing Statement of Accounting Concept number Five (SAC 5), has meant that the measurement controversy continues in full force. Despite the continued claims of inconsistency and misrepresentation with present-day methods of asset measurement, financial statements continue to be signed as representing a true and fair view. Leaving one to wonder just how true and fair the financial statements are, if the very basis on which they are prepared is considered to be inadequate.

In practice today, alternative measurement methods have started to
break through the barrier of historical cost as accounting standards begin to reflect the inadequacy of tradition. With no concept statement to guide the issue of asset measurement, standard setters have been compelled to move ahead of SAC 5 and away from historical cost advocating alternative measurement methods for various situations, suggesting that perhaps, a conceptual framework is a waste of time and money. Resulting in overall inconsistency as various standards advocate various methods of asset measurement in order to suit the situation at hand. This action has left the door open for adhoc solutions to be made, particularly in the public sector where asset measurement is as complex if not more so than in the private sector. Resulting in important and valuable items being ignored for financial reporting purposes as they were seen as too difficult to measure, whilst million-dollar public agency's have been sold for a dollar [Walker 1998,35].

Currently in Australia the practice of asset measurement is somewhat varied according to the type of reporting entity in question. According to the professional bodies, the most common measurement basis applied is that of modified historical cost (AARF 1994, 9). Historical cost is modified through the selective revaluation of non-current assets as well as the utilisation of the recoverable amount constraint as specified in AAS 10 and AASB 1010 Accounting for the Revaluation of Non-Current Assets. The recoverable amount constraint states that no
asset will be revalued to an amount that exceeds its recoverable amount. However, the complications of asset measurement have seen several industries, such as life insurance and banking, deviate from this commonly-applied basis and adopt the use of current market value measurements.

Whilst generally accounting standards do not specify a particular measurement method other than historical cost there have been exceptions, namely, AAS 25 *Financial Reporting by Superannuation Plans* and AAS 26/AASB 1023 *Financial Reporting of General Insurance Activities*. Both have advocated what measurement methods will be used in these specific situations. These particular standards will be examined later in the chapter. This need to specify measurement requirements in certain situations has been defended by accounting authorities as a necessary action in order to promote uniformity in accounting standards as guidance was required in areas of inconsistency.

The public sector too has not escaped the perils of measurement. The unique aspect of public sector assets is that a great majority of assets held consist of infrastructure and heritage assets whose characteristics bring great complexity when attempts at measurement are made. Prior to recent reforms, a reality of non-existence was created, as public sector assets were ignored for financial reporting purposes, omitted from financial statements altogether or valued at a nominal value of one
dollar. With the reforms now being implemented, the need to measure such assets has become important and the calls to develop a concept statement have become louder (Australian Accounting Research Foundation 1994, 8).

The public sector has addressed the inconsistencies of asset measurement, and initiated reforms that drastically alter the way public sector assets are measured. To some extent the changes taking place during the early 1990s, when the reforms were at an early stage, were consistent with existing standards AAS 27 Financial Reporting by Local Governments and AAS 29 Financial Reporting by Government Departments. Being specifically developed for government reporting (AARF 1994, 8) both standards encouraged written-down current cost. The need for government to become more accountable to society has meant that measurement techniques have had to be examined and great changes made.

Rather than address and resolve problems at hand, accounting authorities seem to have a tendency to move on to other issues leaving the old ones unresolved. As is evident, leaving vital issues unresolved only adds to the complexity and inconsistency experienced in accounting practice.
One of the current standards that advocates a measurement method for financial reporting is AAS 25 *Financial Reporting by Superannuation Plans*. The issue of superannuation has never gained such importance as it has in today's present economic climate, as working Australians are reminded of their obligation to prepare for their retirement years. However, during the early 1970s when this realisation began, there were no accounting standards in place to deal with accounting for superannuation plans (Hubbard 1982, 2), an issue that was hindered greatly by the non-existence of a concept statement on measurement.

The need for a quick response by the profession relating to the development of a superannuation standard has driven standard-setters into making speedy but not necessarily appropriate decisions. Accepting that historical cost was not the most adequate method of measurement, the profession had to move away from the norm and closer to alternative methods of measurement. Doing so however has created great inconsistencies between the new standard on superannuation plans and existing standards.

**The Need for A Standard Realised**

The issue of financial reporting for superannuation plans became of great concern to the accounting profession during the early 1970s,
when both the Australian and New Zealand Institute of Actuaries and government became concerned about the lack of existing standards governing reporting for superannuation plans. In their search for improvement both the Institute of Actuaries and government between them initiated various inquiries and issued several publications, all with the aim of improving financial reporting for superannuation plans.

The concerns of the Australian and New Zealand Institute of Actuaries was first made public in their 1976 publication entitled *Reporting for Superannuation Plans in Australia*. The greatest concern expressed by the Institute was the need to distinguish between the actuaries' role and that of the accountants in relation to superannuation plans and their operations. This publication was added to and in 1979 The Association of Superannuation Funds of Australia (ASFA) published a booklet entitled *Superannuation Scheme Practice and Reporting in Australia* recommending standards of reporting for superannuation plans, the aim being greater disclosure by superannuation plans (Hubbard 1982, 2).

Government inquiries were also undertaken, the first being the National Superannuation Committee of Inquiry [The Hancock Committee] in 1973. In its report handed down in 1976 and 1977, the Hancock Committee found that disclosure and reporting for superannuation plans was of great importance and requested the preparation of annual reports and audited accounts relating to these plans. This decision was
further developed in *The Final Report of The Committee of Inquiry into the Australian Financial System* [Campbell Report] handed down in 1981, which recommended that accounting for superannuation plans should "observe reporting standards" (Hubbard 1982, 2).

The continual push for a better reporting system by the Institute of Actuaries of Australia and New Zealand was not the only reason why the Australian accounting profession had to act quickly on the issue of superannuation. The work undertaken by our overseas counterparts on such matters also seemed to influence our professional bodies into moving forward with the issue. Whilst the United States began to work on the reporting of defined pension plans in 1974 and subsequently issued a standard in 1980, the United Kingdom in 1978 undertook research into, and published a document on, the reporting of pension funds. Such developments overseas brought home the realisation that Australia too had to begin to move forward:

> Developments overseas indicate that the current Australian situation is unlikely to continue for much longer (Hubbard 1982, 1).

Australia's first step was the issuing of a discussion paper in the early 1980s by the AARF entitled *Accounting and Reporting for Superannuation Plans*. The main aim of the paper was to examine, in detail, issues pertinent to the development of an accounting standard for superannuation plans. However, upon reading the completed draft, one would be forgiven for thinking that the publication was relevant to
the United States not Australia, considering the emphasis placed on definitions and previous activity undertaken by the accounting profession in the United States.

Several years later, following a selective exposure, in November 1986, the Foundation released two exposure drafts, ED 38 Accounting for Defined Benefit Superannuation Plans and ED 39 Accounting for Defined Contribution Superannuation Plans. These exposure drafts eventually gave rise to AAS 25, which today governs reporting for superannuation benefits.

Moving away from the traditional method of historical cost, AAS 25 requires all the assets of a defined contribution and benefit plan to be measured at net market value as at the reporting date. According to AAS 25 (para. 10), net market value is defined as

\[
\text{that amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal.}
\]

In reference to superannuation plans, assets can take the form of contributions receivable, or investments which may include equity, debt security and real estate, cash and other forms of monetary assets as well as other assets including those used in the contribution plan (AAS 25 para. 27).

In cases where a market does not exist for long term monetary assets,
The standard specifies that in order to calculate net market value, there must be a determination of a present value by applying either a current market-determined or risk-adjusted discount rate. The standard acknowledges that subjectivity and judgement are involved when determining the net market value for assets of a superannuation fund (AAS 25 Para 38).

According to the professional bodies, measuring assets at net market value satisfies the requirement of Statement of Accounting Concept number Two (SAC 2) as it allows for more relevant information to be made available to users of financial statements (AAS 25 Para 39). However, in satisfying SAC 2 and the critics of historical cost, financial reporting has moved yet another step away from the profession's ultimate goal of uniformity. Although the professional bodies have continually argued in favour of consistency and uniformity within accounting standards, their radical stance on asset valuation for superannuation plans has meant that standards such as AAS 4 Depreciation of Non-Current Assets fail to apply to any depreciable assets included in a superannuation plan (AAS 25 para. 41).

The use of net market value was, at the time, the first major step for the Australian accounting profession in moving away from historical cost. However, it was not alone. The Financial Accounting Standards Board in the United States, the Pension Research Accounts Group in the United Kingdom and The Association of Superannuation Funds of
Australia all gave consideration to various alternative methods that could be used in place of historical cost. The various methods considered included historical costs, fair value/market value and different measurement methods for different types of assets (Hubbard 1982, 39).

The use of historical cost to measure the assets of a superannuation plan, whilst considered to be consistent with generally accepted accounting principles, was not the favoured approach. Although less subjectivity is associated with the use of historical cost and it is a much simpler method to apply, to many, particularly the Financial Accounting Standards Board, it was not seen as the most effective method to use. Rather, the fair value/market value approach was considered to be the better method for measuring the main assets of a superannuation plan with a range of measurement methods being applied to the measurement of other assets typically measured at historical cost. Accounting authorities had opted to follow in the steps of the Financial Accounting Standards Board and report for superannuation plans using net market value as a basis for asset measurement, a solution that was not fully agreed to by all.

**Gaining Support for a New Direction in Asset Valuation and Superannuation Plans**

By the close of 1986, the AARF had made public a media release
entitled Financial Reporting by Superannuation Plans. In the release, the issue of two exposure drafts relating to accounting for superannuation plans was announced. The media release described the two exposure drafts as

[proposing] fundamental and far reaching changes to the financial reporting practices...[of] superannuation plans both in the private and public sectors (Archive File 98, 1986).

The road to the development and issuing of a superannuation standard was not an easy one to travel as various views and ideas came into the equation from diverse corners of the business community. However, in preparing the standard, the AARF seemed reluctant to take into account, let alone refer to, the views of others apart from those of our overseas counterparts principally in the United States. In fact, at the outset of developing the standard much emphasis was placed on what had occurred overseas. This was clear in late 1983 when the AARF developed the Key Decisions Questionnaire, designed to highlight and address the basic issues of accounting for superannuation in a bid to have them resolved by the Foundation in its preparation for an exposure draft. However, each issue considered was looked at in terms of how it was dealt with both in the United States and the United Kingdom (Archive File 99, 1983).

A discussion paper entitled Accounting and Reporting for Superannuation Plans, published by the AARF was one of the first
publications issued in relation to the superannuation standard. An early report by the Technical Studies Advisory Committee reviewing the discussion paper indicated that the use of net market value, when measuring assets, was the most appropriate method available for two reasons. Firstly, measurement of assets was to take the form of net market value, as it was required in the United States. Secondly, it was thought that fund members would be most likely to relate to the net market value method as it was assumed that fund members, when measuring their own private assets used such a method:

An ordinary member of a superannuation plan if asked the value of his house or car would almost certainly quote the value he could sell it for. It is most likely that he would have a fair knowledge of what the value would be (Archive File 100, 1983).

During the next several years, the Foundation worked towards preparing two suitable exposure drafts, ED 38 Accounting for Defined Benefit Superannuation Plans and ED 39 Accounting for Defined Contribution Superannuation Plans. Early in 1986, several months prior to the public release of Exposure Drafts 38 and 39, a selective exposure was made, inviting preferred organisations and individuals of the business community to respond. As on previous occasions, the length of time given to respondents was minimal and, according to many responses, not enough time was allowed for an adequate review and subsequent submissions to be made.

A selective exposure process was necessary according to the
Foundation, as it would assist in adequately developing the standard by involving those with the best knowledge and expertise in the area:

The Foundation considers that the selective pre-exposure of drafts is an important step in the development of accounting standards. Those included on the selective exposure have a particular interest and/or acknowledged expertise in the area addressed by the proposed standard. The comments submitted and the viewpoints expressed at this stage of the development process provide valuable feedback and enable refinement of the drafts prior to their release for general comment (Archive File 102, 1986).

However not all were pleased with this process as it would seem that the selective list was perhaps not as exhaustive as it should have been.

Jim Priddice, a former Deputy Chairman of the Accounting Research Committee, alerted the Foundation to this issue prior to the selective exposure taking place:

I note that the list of proposed recipients seems light in regard to commercial and industrial organisations, particularly in NSW - do you feel that sending for attention of Group of 100 subcommittee covers this sufficiently? (Archive File 103, 1986).

The Institute of Actuaries in Australia also expressed its concern at not being involved in the selective exposure process arguing that no standard on superannuation can be adequately addressed without the assistance of the actuaries in Australia (Archive File 104, 1986).

Once the responses to the selective exposure were received, it was clear that the answers and thoughts made were not as positive as perhaps
the Foundation expected them to be. From the submissions reviewed, it would seem that many were questioning the drafts and believed that more work had to be done on them. In fact, almost half the respondents, whilst supporting an alternative method of asset measurement, had some reservations as to its implementation as described in the exposure drafts. Thirty two percent of respondents held strong reservations in terms of the asset measurement issue advocated.

Of those who agreed, but had some reservations, the most common reasons included, firstly, the claim that not all assets in a superannuation fund could be measured adequately using net market value and therefore such a method would not be applicable to all. Secondly, it was argued that not enough information or guidelines were given to those preparing the financial reports on how to utilise such a method of measurement on various assets, calling for more appropriate definitions and greater informative material to be supplied (Archive File 105, 1986). It was feared that not doing so could be detrimental to financial reporting for superannuation plans:

1 It must be made clear that the submissions reviewed on the selective exposure were those which were found in the historical records of the Foundation. Thus the author acknowledges that there may have been other submissions made but which are no longer available.
in the absence of some form of prescriptive guidelines in respect of the implementation of the net market value approach, inconsistent and ad hoc methods may result, which could significantly undermine the conceptual validity of the approach (Archive File 112, 1986).

Measuring all assets of a superannuation fund at their net market value was generally considered to be an impractical method (Archive File 109, 1986), as it was not suitably relevant to all asset types (Archive File 110, 1986). Rather, the need for choice was called for with the method of measurement based on the type of asset involved:

We prefer an approach which is more flexible in choice of asset value, but which requires disclosure of market value (Archive File 111, 1986).

The professional bodies were, in a number of submissions, criticised for insufficient understanding of specific issues in superannuation. The apparent lack of practical experience held by the authors of the proposed standard was held out to be the reason why a less than adequate standard was developed based on what many saw as being an incorrect assumption (Archive File 106 and 107, 1986). Many believed that the standard was practically unsound and was therefore not ready for general publication:

Much of what is proposed makes good sense in theoretical terms...it is clear that the draft covers a number of important issues, they are far from being in a form which could be put forward for public discussion (Archive File 108, 1986).

Several respondents believed that accounting authorities were too busy
trying to dictate issues over which they had no control, whilst failing to resolve important issues which they could address such as measurement (*Archive File* 106, 1986):

I don’t believe that the profession can mandate the frequency of the accounts of superannuation funds or, necessarily, the form of the accounts. These matters can, and will, be decided by the trust deed or law. The standards can concentrate on defining the measurement principles and can recommend or propose the interval of preparation and the format (*Archive File* 114, 1986).

The negative responses that met the selective exposure should not have come as too much of a surprise as it had been predicted that considerable opposition would be encountered from those most affected by the standard, including superannuation fund trustees and employers (*Archive File* 115, 1986). However, in a bid to counter attack such criticism, the AARF had to try to ensure that it remained indispensable. Thus the Foundation attempted to enlist the help of the Department of the Premier and Cabinet Adelaide, South Australia Inquiry into public sector superannuation for their comments on the selective exposure draft. In response, the inquiry committee declined to comment as it felt it to be inappropriate:

I do not believe that it is appropriate for a committee of enquiry to provide comments on the drafts of the Foundation and I have conveyed this view to them (*Archive File* 95, 1986)

Despite receiving detailed suggestions from respondents, the profession continued to adopt the set approach, one which was based greatly on
the United States method and one which perhaps was not entirely suitable for Australia's business environment (Archive File 96, 1986). The profession's isomorphic characteristic was once again revealed as it sang the praises of the superannuation standard, claiming it to be consistently developed with the international standard on superannuation and in line with the approach adopted by many organisations (Archive File 116, 1986). However, this very concept of the standard conforming to the international one was a sensitive issue to some who believed that the proposed standard was not as up to scratch as its international cousin:

> the principle area of disagreement has been widened ... I have compared the approach used in your document with that used in the International Accounting Standard. While both AARF's draft and IAS 26 are aiming basically at the same result and have basically the same approach, I find the wording of IAS 26 acceptable almost without comment for amendment in Australia whereas I regret I cannot apply the same comment to the AARF draft (Archive File 113, 1986).

Defying calls for more work and refinement to be made to the proposed standard, the Foundation went ahead and made a general exposure receiving much the same criticism did in the selective exposure process.

Several months after the public issuance of Exposure Drafts 38 and 39, the Australian Accounting Research Foundation received fifty-one
submissions\(^2\) from individuals and groups representing all facets of the business community. Whilst support existed for the method of asset valuation proposed, it was clear from the submissions that a majority of respondents would have preferred a more flexible approach allowing various methods of asset valuation to be applied in different circumstances. Sheer frustration was evident from many responses as many opposed not only what was proposed in the exposure drafts but also the way the AARF had gone about developing the exposure drafts, not taking into consideration the opinions of others but only their own:

We have ample evidence that it [net market value] is unacceptable to the superannuation industry ... as the only available method of valuing assets is inappropriate, given the long term nature of the plan. The standard should give some consideration to consistency in the method of valuing assets and the method employed by the actuary in valuing the liability to members and beneficiaries (*Archive File* 117, 1987).

By restricting superannuation plans to only one method of measurement, the Australian actuaries accused the accounting profession of trying to undermine the decisions made by the Trustees and to overpower their stance within superannuation plans. To make an already problematic issue more complex, a power struggle was at the

\(^2\) The number of submissions received was based on available information received from the Australian Accounting Research Foundation. However only forty-eight submissions are usable as one submission is missing and two were confidential
time becoming evident between the accounting profession as a whole and the Australian actuaries:

We do not accept that plans should be compelled to necessarily record "market values" to the exclusion of other approaches. We believe that there would often be circumstances where it would be quite imprudent for Trustees to necessarily take assets to account at full market values. We do not believe that it is, or should be, the prerogative of the accounting profession to over-ride the responsibilities of Trustees in this matter. We accept nonetheless, that it would be proper for the basis of asset valuations to be revealed in brief narrative (Archive file 118, 1987).

The greatest concerns held by many of the responses received was that the proposed standard had relied too heavily on the approach taken by the United States for superannuation, despite the different status of superannuation between both countries:

The exposure drafts appear to have been written against the backdrop of the situation prevailing in the USA rather than reflecting the fact that Australian Superannuation Funds have evolved from and have historical links with the United Kingdom. In particular, this affects the basis on which assets are valued (Archive File 119, 1987).

Not only were respondents concerned at the adequacy of what was proposed in the exposure drafts for Australia's superannuation environment, many were also angered at the fact that the AARF did not seem to be listening to other suggestions. Respondents who had been chosen for an earlier selective viewing of the exposure drafts expressed sheer frustration and surprise at the Foundation's apparent disregard
for the suggestions made previously by respondents. Many were concerned that their previous responses and the concerns raised were ignored allowing many contentious issues to remain in the newly issued exposure drafts, as the following extract from a respondent reveals

it is apparent that the exposure drafts are almost identical to those issued selectively earlier in 1986 and on which we commented in our letter. Naturally we were disappointed that the Foundation has ignored almost all of our previous comments - comments which were intended as constructive criticism, of what are, in our opinion, serious flaws in the drafts (Archive File 120, 1987).

The Association of Superannuation Funds of Australia (ASFA) was also not supportive of the issued exposure drafts and angered that its previous thoughts, given in the selective exposure, were not taken into consideration. So strong was their objection to the proposed standard in its then form that, in addition to sending a submission to the Australian Accounting Research Foundation, the ASFA approached both the Institute and Society to express its concern, appealing to them not to support the drafts

As a member of the Society of many years standing, I wish to express to you, my strong disagreement with the approach taken by the AARF in the exposure drafts on accounting for superannuation plans...I urge the Society not to give automatic support to the draft without seriously considering the issues raised by actuaries and accountants practicing in this complex area (Archive file 121, 1987).

Once again, actions of the AARF became consistent with the moment of
mobilization in the Translation Process of Power. Upon receiving such negative responses, the AARF moved to ensure that the wider business community understood why it had to take the stance that it had in the exposure drafts. Through the publication of articles and other various professional publications, the Foundation hit back at criticism, arguing that the method proposed by it would ensure that all users of financial reports of superannuation plans received as much information as possible (Archive File 122, 1987). In terms of the power framework adopted for the purposes of this study the superannuation standard was an ideal chance for the profession to move focus away from the negativity that surrounded the profession at the time. To a new focus showing how much the rest of the community depended on the profession.

By 1989, yet another draft had been issued. However, unlike previous drafts, this exposure draft was issued on a confidential basis (Archive File 123, 1989). Responses had not changed much as many, particularly the Association of Superannuation Funds of Australia, still saw the draft as technically and practically unsound (Archive File 124, 1990). This perception persisted even after the release of AAS 25 in August 1990:
it was decided to inform our membership of the concerns of the Council with respect to the recently released AAS 25...all of these concerns have previously been expressed privately and in confidence, but now that the standard is released publicly, we found it necessary to fully inform our membership with indications of what course of action they may wish to follow. Many of our members believe it is possibly already too late, however, for our part we hope that is not the case (Archive File 125, 1990).

The AARF began to tire of its failure to have AAS 25 implemented and accepted by the wider community. The Accounting Standards Review Board (ASRB) and the Public Sector Accounting Standards Board (PSASB), representatives of the AARF, wrote to the President of the Australian Society of Certified Practicing Accountants to express their thoughts. Their greatest concerns were that there was a delay in the implementation of AAS 25 due to the continual interference by Australian actuaries and expressed their intention to ensure that the standard was implemented. Yet another indication of a power struggle had surfaced:

Whilst the actuarial profession is quite entitled to have its perception...it is another thing to seek to instruct the accounting profession...we are extremely concerned about the continuing attempts to delay the introduction of this most important and urgently needed standard. Having compromised substantially and provided the actuarial profession with the reporting alternative they have been requesting, we believe there are no further grounds for delaying the issuance of the standard. Accordingly we have instructed the Foundation to proceed with the promulgation of the standard (Archive File 126, 1990).
The force with which the AARF and ASRB were pushing the implementation and acceptance of AAS 25 was not one to be reckoned with as their internal alliances moved to ensure that the standard was issued:

Gerry Allen [a representative of the Institute] advised me that Messrs Standish, Chairman, Accounting Standards Review Board and [Mr.] Carpenter, Chairman Public Sector Accounting Standards Board were pressing him for agreement to the release of AAS 25 and that Mr. Eastwood, President, Australian Society of Accountants was supporting the immediate release of the final draft prepared by AARF dated July 1990 (*Archive File 127, 1990*).

Today AAS 25 still remains, despite the political activities that went on behind the scenes of its development. Even though many disagreed with the exposure drafts and subsequent standard, the political pressure and environmental factors of the day all assisted in the acceptance and implementation of AAS 25 even if it was not considered the most adequate method to utilise.

**THE INSURANCE STANDARD: YET ANOTHER DEPARTURE FROM HISTORICAL COST**

Yet another present day exception to the norm of historical cost is AASB 1023, entitled *Financial Reporting of General Insurance Activities*. Issued in December 1990, its development was a much easier road to travel by our standard setters than that of accounting for superannuation funds. Whilst there were still some concerns as
to the proposals of the intended standard, many acknowledged that a standard was necessary if there was to be consistency within the area of general insurance. The issuance of AASB 1023 is an ideal example of the community’s willingness to implement an alternative method of measurement for the sake of truer financial reports.

Presently, reporting for the general insurance industry sees the requirements of AASB 1023, advocating the use of net market value, requiring all assets pertaining to the general insurance industry to be valued at their net market values. According to the standard, net market value can be defined as

the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal (AASB 1023 Para 7).

Utilising the net market value of an asset would undoubtedly lead to differences in value arising between years. The standard catered for this by requiring that any differences that may arise should be recognised in the profit and loss statement as gains or losses. This clause, in itself, gave rise to some concern, a matter that will be addressed further in the chapter.

Whilst AASB 1023 brought some uniformity within the area of general insurance, it was in direct conflict with existing standards such as AASB 1021 Depreciation of Non-Current Assets and AASB 1010
Accounting for the Revaluation of Non-Current Assets. In a bid to overcome this obstacle, AASB 1023 permitted the non-applicability of these standards to such assets:

Investments that are integral to the general insurance activities of the company or group of companies shall be measured at net market values as at balance date. Any changes in the amounts at which such investments are measured shall be brought to account as revenue or expense in the profit and loss account in the financial year in which the changes occur.

Approved accounting standards AASB 1010: Accounting for the Revaluation of Non-Current Assets and AASB 1021: Depreciation of Non-Current Assets shall not apply to such investments (AASB 1023 Para. 23)

The Dawning of the Insurance Standard

The accounting policies and financial reporting practices undertaken by the insurance industry came under scrutiny after numerous underwriting losses were experienced within the industry in the years preceding 1981. Vast differences were evident in accounting policies employed, leading to considerable inconsistency and an inability to compare adequately the disclosed performance of one insurance underwriter with another (Archive File 141, 1981). The development of an insurance standard was desperately needed if uniformity was to be brought to the financial reports of the general insurance industry. By the early 1980s however, no one group or organisation had attempted to work on a standard as there was a certain degree of confusion within the profession as to whom was responsible for what (Archive File 142,
This confusion had not only hindered the everyday practice of accounting for general insurance, but also proved to be a hindrance to educational courses dealing with the issue, which, due to a lack of existing guidelines and effort, had to rely on publications and developments overseas. When the Australian Insurance Institute commissioned members of The Colonial Mutual Life Assurance Society to prepare study notes for a compulsory subject dealing with accounting and reporting for the syllabus of Associateship in the general insurance branch, they approached the Australian Accounting Research Foundation for assistance. Knowing that the accounting profession had only just begun work on a standard, the members commissioned were grateful to receive any information available in order to keep courses up to date and relevant:

the notes I am preparing could have a significant influence on the next generation of managers in the insurance industry. In consequence, I am very keen to ensure that the notes reflect the latest thinking of those most involved with the move to establish standards...My purpose in writing to you is to ask whether you could assist me to locate books, papers and any other material which I should take into account in preparing the notes or refer to in the bibliography (Archive File 143, 1982).

However, little assistance was available from the Foundation which simply directed the group to Coopers and Lybrand for notes which had been prepared for the discussion paper and to overseas publications for
additional guidance:

As you are no doubt aware the Australian Accounting Research Foundation is undertaking a project on the development of accounting standards for the general insurance industry. The first stage of this project involves the preparation of a discussion paper. The task is being carried out for the Foundation by Coopers and Lybrand...I suggest that you make contact with them in your quest for assistance... With respect to publications on insurance accounting standards I suggest you make reference to publications by the Financial Accounting Standards Board and the Institute of Certified Public Accountants in the United States (Archive File 144, 1982).

Once it was declared that a standard was required, the Foundation immediately began to undertake the development of a discussion paper on accounting for general insurance (Archive File 141, 1981). The discussion paper was to be a descriptive non-biased overview of the existing accounting practice adopted by insurance companies in Australia, and the possible alternative courses of action that could be taken. In addition to relying on several exposure drafts prepared and distributed by the Insurance Council of Australia, the AARF had also undertaken two surveys of the insurance industry in a bid to develop the most accurate and reliable standard possible (Archive file 145, 1982). The first of these surveys was conducted in 1982 with an estimated one hundred surveys being sent out to selected companies within the insurance industry (Archive File 146, 1982), the aim being to find out as much information as possible on a range of financial
reporting issues. A further survey was conducted by the Foundation in 1986. However, this survey was more selective in the information that it sought to detain. Unlike the first survey, the second one focused on accounting for the liability of outstanding claims (Lamble et al 1987, 3). Although there was less controversy with the progress of the general insurance standard, a considerable amount of time was still invested by the Foundation in its development. Four and a half years after the discussion paper was first commissioned and three years after its original nominated date for publication, neither the discussion paper nor an exposure draft had been issued by the accounting profession (Archive File 147, 1985). From the historical research undertaken, it would seem that the reason for this moderate progression was the lack of knowledge possessed by those in charge of preparing the eventual standard. In fact, during this time, the Foundation was still requesting exposure drafts and other literature already developed in the United Kingdom (Archive File 150, 1986).

With many eagerly awaiting the implementation of a much-needed standard, tension began to rise as the progress of the project was questioned and the threat of government intervention was once again a reality facing the profession:
The Board of Directors of ICA [Insurance Council of Australia] is becoming increasingly concerned at the time taken over this exercise, particularly when this Council has been advised that moves are afoot from the Insurance Commissioner's office in Canberra, which could result in a formal accounting standard being imposed upon the industry by government regulations. This, of course, is something we as an industry would like to avoid (Archive File 148, 1986).

Once again, consistent with the moments in the translation process, the professional bodies moved into mobilisation mode, enroling as many as possible to their cause, sending out letters of reassurance to concerned individuals and organisations that productive work was continuing:

The Society and the Foundation share your concerns at the time taken to progress the development of an accounting standard for the general insurance industry. The importance of this project is recognised by the profession and considerable resources have already been devoted to its completion... I have discussed the current situation with the Foundation and am pleased to inform you that progress is being made (Archive File 149, 1986).

In December 1987, the AARF finally published the much awaited exposure draft, ED 43: Financial Reporting by General Insurers. However, it would be another year before the discussion paper was released.

**ED 43 and Some General Concerns**

The overall acceptance of the exposure draft, and its recommendation that assets be measured at net market value, was much more favourable than that experienced with the superannuation
standard. In general, it was accepted that the traditional method of historical cost was not totally appropriate for the changing environment and the use of net market value was welcomed. Whilst opinions from the submissions varied, most were in favour of the net market value approach. However there were some general concerns with the exposure draft and the belief that perhaps more could be done to make the draft and subsequent standard more workable and accounting for insurance more uniform.

1 Lack of Explanation in Determining the Net Market Value

One of the most common concerns held by those who accepted the net market approach was that the exposure draft failed to explain adequately how to determine the net market value of assets. Clearly advocating the use of net market value in a bid to bring uniformity to reporting for the general insurance industry, the omission of such important information gives rise to greater subjectivity (Archive File 151, 1988) and further inconsistency:

Ed 43 provides for the adoption of net market value accounting but does not provide any guidance on how net market value should be determined, other than by providing a definition of net market value (Archive File 152, 1988).

2. Market Value Not Applicable To All Types Of Assets

Another concern raised was that the method proposed was not ideally suited to all assets (Archive File 153, 1988). Many who agreed with the
net market approach thought that the method should not be restricted to the major assets of an insurance fund only, as advocated by the exposure draft, but should be made more widely applicable to all assets of an insurance fund (Archive File 154, 1988). The fact that the exposure draft permitted a choice between the historical cost method and the net market approach was seen by some respondents as a less than favourable solution, for fear that greater confusion would result:

We can see merit in many of the proposals contained in the draft but at the same time can also see a number of problems. For instance, we see a mix of historic cost or current cost or current value accounting as serving little purpose other than to further confuse the issues and believe that agreement on a consistent accounting framework is more important and indeed vital in the long term (Archive File 155, 1988).

3. Treatment of Unrealised Profits and Losses

The treatment of unrealised profits and losses that arise due to the proposed valuation method caused great concern to many respondents. Under the proposed exposure draft, when investments were measured at their net market value and differences arose between the current and prior periods, any variance in value had to be recognised in the profit and loss account. To many, this seemed unrealistic as the financial statements were to recognise unrealised profits or losses that may never be realised (Archive File 156, 1988).

Concerns of this nature caused many to conclude that neither historical
cost nor net market value were the only applicable methods for the valuation of insurance fund assets, as a consequence alternative methods were proposed. One such method was the cost plus systematic appreciation method. This method measured assets at historical cost, plus an annual appreciation increment being calculated in a consistent manner which would result in the total value of the asset increasing towards, but never exceeding, the aggregate net market value (Archive File 157, 1988).

4. In Conflict With Existing Standards

Respondents were also concerned that the proposed standard was in direct conflict with existing standards and, thereby, had the potential to cause greater confusion in accounting practice (Archive File 155, 1988). Accordingly some respondents called for a revised exposure draft to be issued:

As this is the first opportunity for interested parties to comment and make recommendations on ED 43 we consider that after AARF has evaluated all submissions a revised exposure draft be issued prior to the adoption of an accounting standard for the general insurance industry (Archive File 151, 1988).

The Opening of Pandora's Box

With the proposed standard breaking new ground, the professional bodies were called upon to ensure that the standard was not only theoretically sound but also practically sound (Archive File 158, 1988).
The insurance standard was likened to Pandora’s box because the need to cover all grounds was considered a must:

While we support the reasoning advanced in support of this procedure, we are concerned that its use be very carefully controlled. If you are determined to open Pandora’s box, please make sure you have absolute control of the movement of the lid (Archive File 158, 1988).

The Private Sector: an Encapsulation

Preparing standards for the private sector is never an easy task, however the job is made all the more difficult if the basis on which these standards are prepared is not sound. What is apparent today, is that the Australian Accounting Research Foundation has continued to move ahead and develop standards and make decisions for particular situations without adequately resolving the issue of measurement or developing a much awaited concept statement that would guide standard-setting. Thus, rather than reducing the inconsistencies present in today’s financial reporting methods, accounting authorities serve only to make it more complex and subjective.

For whilst standards such as those for superannuation and the general insurance industry may be considered as being uniform when considered in isolation of all other standards, applying them to practice is yet another story. Conflicting with existing standards, clauses have to be made which, whilst reducing the difficulty of applying the standard to a particular situation, greatly increase the possibility of
inconsistency and subjectivity. Therefore, while the profession appears to move forward with asset measurement in specified circumstances, it has failed to resolve the basis of the problem. One has to ask, just what sort of complexities and mayhem will result when and if a Concept Statement of measurement is issued?

(B) THE PUBLIC SECTOR

THE MEASUREMENT CONTROVERSY AND THE PUBLIC SECTOR

To delay until all unknowns are explained, simply means nothing will ever happen (Department of Finance 1997,1).

The issue of measurement and its controversies has not been restricted to private sector accounting but has also created great dilemmas for public sector accounting and its associated accountability. Recent reforms and developments within the public sector have seen great changes on the front of financial reporting for government departments. These changes have inadvertently brought problems and confusion in certain areas of financial reporting including asset measurement being one of them. However, while accounting authorities have debated the issue of measurement for a far greater length of time than the public sector. It would seem that the public sector has moved ahead of the private sector, and prescribed the adoption of deprival value as the preferred method of measurement within government entities.

The apparent readiness and ability of public sector authorities to adopt and successfully improve a specified measurement method
on those within their jurisdiction is in sharp contrast to the failure of the accounting profession to achieve the same result in the private sector. The most likely explanation for this difference is that the determination of reporting practices and principles, takes place in a different political environment for the public sector to that of the private sector.

**ACCRUAL ACCOUNTING - A NECESSARY REFORM**

Accrual accounting is a means to an end, and the goal is improved public sector performance and accountability (McPhee 1993, 2).

Since 1856, when New South Wales achieved self-government, the public sector has continued to report on a cash basis. This method of reporting, however, became redundant during the 1980's when reforms of the public sector were proposed and adopted moving government accounting into a whole new era of accrual accounting (Public Accounts Committee 1992, 10).

Prior to these reforms, government departments and authorities exercised very little accountability to Parliament or to society. The day to day operations of these departments had, to a large extent, grown to be self-regulated with accountability minimal. In order for Parliament to heed calls for a "cost-efficient public Sector", and to reiterate its control over government departments, major reforms affecting the legislation of government accounting were to take place (Public
This realisation, that there was a need to improve financial reporting and develop sound accounting standards within the public sector, gained importance during the 1980s when Parliament realised that accountability was what society wanted:

The absence of accounting standards appropriate to the needs of the public sector has caused increasing concern to those accountable for the growing sophistication, complexity and size of government operations, including those elected by the public for safeguarding and promoting the interests of the electorate and society as a whole (Public Accounts Committee 1992, 12).

To develop adequately and correct the workings of the public sector, a number of issues had to be confronted. Of utmost importance was not only to upgrade government accounting techniques but also the skills possessed by public sector managers. In turn, there was a perceived need to ensure that greater accountability resulted. The traditional cash based accounting system meant that all assets except cash were effectively ignored for reporting purposes. Failure to account for assets other than cash meant that financial information was misleading and accountability non-existent. In order to successfully undertake the reforms, a complete reformation of financial reporting for the public sector had to be undertaken in order to provide relevant and reliable information (Public Accounts Committee 1992, 3).

Part of this reform came in the form of accrual accounting. However the
accountability of accrual accounting as opposed to the traditional method of cash accounting has meant that the public sector has been exposed to the measurement debate which as demonstrated in the last chapter has divided many within the private sector.

**Towards deprival value**

Following the decision in the late 1980s to implement accrual accounting, it became clear that one of the greatest challenges to be faced was the valuation of non-current public sector assets. In light of the perceived difficulties, New South Wales Treasury undertook to produce a set of guidelines *Accounting Guidelines for Reporting Physical Assets in the Budget Sector*, that would assist in the transition to accrual accounting and specify inter alia, how various public sector assets would be measured (NSW Treasury 1989).

The proposed guidelines in this report were aimed at ensuring that all assets were valued at current cost, which was defined as the lowest possible cost at which the asset in question could be obtained. However, some difficulty arose when consideration was given to the valuing of public sector assets for which there existed no realistic market and, assets such as heritage and cultural assets. For example, national parks and monuments, over which it is difficult to exercise a degree of control as they are freely accessible to society. With this in mind and aiming to provide the most relevant and reliable information
possible, the guidelines proposed that heritage assets be valued, for reporting purposes, at a nominal value of one dollar (NSW Treasury 1989, 10).

However, if reporting entities that had previously reported the asset in question at cost price did not wish to value the same asset as per the guidelines of the report, then an alternative method could be chosen. These methods included (NSW Treasury 1989, 10):

➢ **Market Valuation** - under this approach the current cost of the asset is determined through an existing market.

➢ **Written Down Reproduction Cost** - the current cost of the asset is determined by the cost of reproducing or duplicating the asset.

➢ **Written Down Replacement Cost** - under this method the current cost of the asset is determined by reference to the cost of replacing a particular asset with an asset with similar service potential or future economic benefit.

The decision as to which method to use is further assisted by the use of a decision tree, developed in order to assist in choosing the best method of measurement available for assets being valued for the first time (NSW Treasury 1989, 11).

In cases where assets possessed both heritage and non-heritage characteristics and for which there was a continuation of service

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potential, the use of market value, or written down replacement cost, if the market value was not available, would be advocated. In situations where there was no continuation of service potential, the value of the asset would be determined as the higher of net realisable value and net cash inflow from the assets.

Once the method of valuation is selected, it must be decided how this value can be cost effectively obtained. The guidelines propose that, for the valuations of land, the opinion of a valuer-general or another registered valuer should be obtained. For all other assets, the guidelines state that they could be valued by experts within the reporting entity or by persons independent of the reporting entity (NSW Treasury, 1989, 13).

A year after the publication of the 1989 report, the paper was refined based on the comments received, and another report Policy Guidelines for Valuation of Physical Non-Current Assets in NSW Public Sector, was issued in September 1990. The report recognised that asset measurement within the public sector faced greater problems than that in the private sector. Refining the concepts of the previous report, assets were segregated into three categories, that of Infrastructure Assets, Restricted Use Assets and Heritage Assets. For the purpose of determining the appropriate valuation method, the 1990 guidelines stated that where available, market value would be used. If the market value were unattainable, then written-down replacement cost was to be
used. As with the 1989 report, the refined guidelines advocated the assignment of a nominal value of one-dollar to heritage assets (Funnell and Cooper 1998, 214).

**PUBLIC ACCOUNTS COMMITTEE**

During the late 1980s, the Public Accounts Committee (PAC) inquired into and reviewed the reforms that were being implemented throughout the public sector. The PAC adopted the view that financial reports were to provide information and a means of accountability by those preparing the reports to the groups and individuals who received them. Upon completion of their examination, the Committee prepared and issued a report detailing the progress of the up and coming reforms. High on the agenda for consideration was the adoption of inconsistent measurement methods for the valuation of public sector assets and the possible misstatements that may arise under the then current practices. Several case studies were undertaken to examine the differences and effects.

**Royal Botanic Gardens and Domain Trust** The first case study under consideration dealt with heritage assets and looked at The Royal Botanic Gardens and Domain Trust. Situated in the heart of the city, the Botanic Gardens are a major tourist attraction attracting more than three million visitors each year (Public Accounts Committee 1992, 34). Home to several historical sites such as the first established farm of Governor Phillip in 1788, the Botanic Gardens and Domain Trust
employs over two hundred and fifty staff members. During the financial year 1990-91, when the report was made, this heritage asset earned in excess of sixteen million dollars in revenue. While the net annual earnings of this asset are able to be readily determined difficulty arises when a value must be assigned to it. For example, how can a value be assigned to the status the site holds both domestically and internationally,

In examining the reporting process for the asset in question, it was realised that, while a substantial amount of money was expended on works and improvements of the Botanical Gardens, there was no adequate disclosure within the financial reports as to the asset's actual value. After a considerably long process, the Public Accounts Committee concluded that the previous Treasury Department guidelines of valuing heritage assets at a nominal value of one dollar was misleading and portrayed an incorrect position of that particular asset and department as a whole. In light of these findings, the Public Accounts Committee made the following recommendation

the Committee recommends that the valuation processes be reviewed to ensure that the capital expenditure in earth works, ground improvements etc. be recorded at appropriate value to accurately reflect the State's equity in a project (Public Accounts Committee 1992, 38).

By adopting this approach, an investment in excess of fourteen million dollars instead of a nominal value of one dollar would be disclosed.
Valuer-General's Department The second case study examined by the PAC was in relation to the Valuer-General's Department. The main task of the Valuer-General is to determine land values, which are then used as a basis for the levying of various taxes and rates. In this case however, it was concluded that the fees charged by the Valuer-General's Department were based on historical records, which, under the new accrual accounting system, were not sufficient. The method used to charge fees was based not on the time and complexity associated with the maintaining of a Valuation Roll for a particular area but rather on the number of records maintained. Thus the basis on which fees were set was insufficient for the costs incurred under accrual accounting (Public Accounts Committee 1992, 44).

Roads and Traffic Authority The third case that looked at the issue of measurement and public sector assets focused on the Department of Roads and Traffic Authority (RTA). The RTA is the NSW's statutory authority for the maintaining of roads and bridges and exercises control over the licensing of drivers and the registration of motor vehicles. Prior to the formation of the RTA, two government departments were in place, namely the Department of Main Roads and the Department of Motor Transport. These two bodies effectively dealt with the issues that the RTA today governs.

During the early 1980s, the Department of Main Roads, which was accountable for the State's transport infrastructure, reported on a non-
accrual accounting basis. As a result the value of the States road transport infrastructure was ignored for financial reporting purposes. The Committee noted that, for the financial year ended 1983/84, infrastructure valued at over forty three million dollars was omitted from the financial reports. With the adoption of accrual accounting within the public sector, many were disappointed with the new calls to value infrastructure based on a current cost basis. With an obvious lack of accounting standards to govern this complex issue, the Roads and Traffic Authority had taken it upon itself to develop and implement its own accounting policy for the valuation of transport infrastructure. This policy saw the introduction of two provisions. The first, a Provision for Asset Restoration, was the amount required to bring the assets to an acceptable standard. The second, a Provision for Asset Renewal, was the amount required to maintain the asset at near new condition (Public Accounts Committee 1992, 51).

The inconsistency of asset valuation in the public sector is evident when one compares the reporting practices of the RTA and that of the Maritime Services Board. In direct contrast to that of the RTA, the Maritime Service Board valued its land and infrastructure at the nominal value of one dollar as proposed by the 1989 Treasury Report. This finding by the Public Accounts Committee led to yet another recommendation relating to the need to develop an adequate standard for valuing public sector infrastructure assets:
The Committee recommends that the Treasury, in collaboration with the Australian Accounting Research Foundation and the Public Sector Accounting Standards Board, expedite the issue of an Australian Accounting Standard for public sector infrastructure assets (Public Accounts Committee 1992, 52).

THE POSITIVE STEP TOWARDS A UNIFIED METHOD OF MEASUREMENT - DEPRIVAL VALUE

In July 1991, at a special Premiers' Conference, a Steering Committee on National Performance Monitoring of Government Trading Enterprises (GTEs) was established in a bid to bring resolution to the perceived complexities of valuing GTEs. The committee considered that in order to produce relevant and reliable information, a consistent method of measurement would have to be employed when it came to valuing the assets of the Public Sector:

[to ensure that the financial indicators used to assess the performance of GTEs are comparable it was recognised that a consistent approach to the current valuation of assets was required (Industry Commission 1994, 3).

Several months after the Steering Committee was formed a further committee was created called the Asset Valuation Sub-Committee, which also assessed and examined various valuation methods in order to determine which would best suit the public sector.

In direct contrast to historical cost advocates, the Asset Valuation Sub-Committee was of the view that, while there were certain advantages to
using historical cost, the objective determination of values being one, there were numerous downfalls leading to present day inconsistent financial reporting practices. For instance, under strict historical cost no revaluation of assets would be made. However, with various GTEs this is not the case as many are revalued to current values (Industry Commission 1994,31). Furthermore, as in the private sector, the valuing of assets at historical cost was not considered to be a reliable method, as the change in asset values due to inflation is not accounted for (Industry Commission 1994,32). Therefore the Sub-Committee came to the conclusion that asset values would be best portrayed at their current values, namely the use of deprival value, which, in the Committee's opinion, provides relevant and reliable information for (Industry Commission 1994, 8);

➢ Making and evaluating decisions about the allocation of scarce resources and

➢ The discharge of accountability by managers for overall resource management.

Before considering the use of deprival value within the public sector, it must be remembered that assets are defined in accordance with SAC 4. Thus, according to the report, assets possess a service potential or future economic benefit to a controlling entity resulting from past transactions or events (Industry Commission 1994, 8). Nevertheless,
despite the report adopting these guidelines, it was openly stated by the Sub-Committee that its adoption of these guidelines should in no way infer that the whole of SAC 4 as a statement had been adopted for its accounting purposes (Industry Commission 1994, 8).

Under deprival value, an asset is valued based on the amount of loss which would be experienced by the Government Trading Enterprise if the service potential or future economic benefit were foregone due to the entity being deprived of that particular asset. Several key points in applying this method were put forward by the Sub-Committee (Industry Commission 1994, 10):

➢ Where an entity would replace the service potential embodied in an asset if deprived of it, the asset should be measured at its current cost (i.e. the lowest cost at which the gross service potential of the asset could currently be obtained in the normal course of business). This is the amount which an entity would need to receive in compensation to restore the asset to its former capacity.

➢ Where an entity would not replace an asset if deprived of it, the asset would be measured at the greater of its market value and the present value of future net cash inflows expected from continued use of the asset. This is the amount by which an entity would be worse-off if deprived of the asset.

➢ Where an asset is surplus to requirements, the asset should be
measured at its market value.

The basis of deprival value is akin to that of replacement cost which considers the amount required to obtain an asset identical to or equal in stance to the previous asset (Industry Commission 1994, 9). Considering the advantages of deprival value and the disadvantages of historical cost, it was concluded that deprival value would be the most suitable. This conclusion was based on the following perceived advantages of deprival value (Industry Commission 1994, 10):

- The measurement and depreciation of physical non-current assets at deprival value provides relevant information about the current cost of providing goods and services;

- The measurement and depreciation of physical non-current assets at deprival value provides relevant information about the current value of the resources deployed for this purpose;

- Deprival value reflects whether the capacity of the entity to continue its present level of operations has been maintained. Consequently, it avoids inadvertent erosion of the entity's operating capacity; and

- Deprival value reflects price changes that are relevant to the particular classes of assets held by an entity, as opposed to those based on a general index of price changes.

In reaching its conclusion, the Sub-Committee looked at the various
types of Government Trading Enterprises and the assets they held and
gave its opinion as to the applicability of deprival value to all.

**Methodology for valuing Government Trading Enterprise assets at
deprival value**

Arguably the most complex assets to value within the public sector are
Land and Heritage Assets. According to the Sub-Committee, both types
of assets can be measured using deprival value as both meet the key
characteristic of foregoing service potential or future economic benefit.
The basis of this argument is that whilst an asset is being used for one
particular purpose, the GTE foregoes the associated benefits of using
the asset for another purpose.

**Land**

According to the Sub-Committee, the deprival value of land attained is
not based on the cost of acquiring similar land less any improvements,
as doing so may lead to the reporting of misleading information. Under
the sub-committee guidelines, the deprival value of a particular parcel
of land is determined by reference to whether the GTE, if deprived of the
asset, would replace it.

In the situation where the Government Trading Enterprise is deprived
of land which was held for continual use and would replace this land,
the basis of valuation under deprival value would be the greater of the
following (Industry Commission 1994, 12):

- Current market buying price, taking into account the nature of the parcel, the legal restrictions on use, the opportunities for and impediments to development that are inherent to the specific parcel of land and other constraints that exist in respect of that land and any special attributes that the land may possess (value in use); and

- Current market value (selling price) based on its feasible alternative use taking account of the costs of achieving that alternative use.

In cases where a Government Trading Enterprise held land for continual use but would not replace the service potential or future economic benefits if deprived of the land, the greater of the following would be used as the basis for valuation under deprival value (Industry Commission 1994, 13):

- The present value of future net cash inflows; and

- Current market value (selling price).

**Land under infrastructure assets**

Like all other non-current physical assets, land under infrastructure assets can also be valued using deprival value, the only condition being that such land and the infrastructure asset must be valued separately. Once again, the sub-committee considered that land under infrastructure assets including roads, satisfies the key characteristic of
foregoing service potential or future economic benefits. However, the valuation of land under infrastructure assets is still a very complex and contentious issue. Particularly when it is still questionable if land under roads are in fact assets, in spite being generally accepted as an asset.

Roads are obviously an asset. We spend millions each year on building them, maintaining them and making them safer. They make it possible for the community to function (Funnell and Cooper 1998, 226).

Heritage assets

Given its diverse historical and cultural background, Australia is fortunate to have numerous heritage assets that have been preserved due to their physical attributes and their contribution to making Australia what it is. From historical buildings to monuments and artifacts, Australia possesses some of the world's most beautiful heritage assets and some of the most complex to value. For recognition purposes, heritage assets cannot be sold and must be maintained indefinitely. This however does not preclude the ability of heritage assets to provide functional services whilst still being recognised as a heritage asset. For reporting purposes heritage assets are to be valued as all other non-current physical assets held by GTE's, that is, using deprival value.

The ability of one to obtain and maintain the service potential of a
heritage asset, that is, to replace, reproduce or otherwise acquire the service potential, is pertinent to the valuation basis chosen under deprival value. In the situation where the Government Trading Enterprise is deprived of the heritage asset and the service potential is otherwise acquired, then the deprival value of the asset is based on the written-down current cost of the service potential. Alternatively, if a Government Trading Enterprise is deprived of the service potential of a particular heritage asset and it is not otherwise acquired then the valuation basis under deprival value would be the recoverable amount which would be its market value or selling price (Industry Commission 1994, 14).

Despite such guidelines being set down, the complexity of reliably valuing some heritage still remains. For example, there is difficulty in valuing assets such as historical buildings and collections, as the value of these assets do not arise from any intrinsic value but rather from the assets historical characteristics (Funnell and Cooper 1998, 230). In recognition of these complexities, the guidelines state that only those heritage assets that can be measured reliably are to be included in financial reports. Therefore numerous historical and library collections can presently be excluded for financial reporting purposes, rating only a mention in the notes as to the asset's nature and function and any associated maintenance or other costs that may be incurred (Industry Commission 1994, 15).
Valuing heritage assets at Commonwealth level

A year after the Sub-Committee issued its report on valuing Government Trading Enterprise Assets, the New South Wales Treasury issued a report, *Guidelines for the Valuation of Land and Heritage Assets in the NSW Public Sector* (NSW Treasury 1995). The asset valuation methodology adopted conformed to that of the Steering Committee and its recommendations in 1994. Assets, including land under roads, historic library and museum collections and other similar assets considered too complex to measure were to be ignored for reporting purposes under the 1995 guidelines.

During the same year, Report 341 *Financial Reporting for the Commonwealth Towards Greater Transparency and Accountability* was issued (Joint Committee of Public Accounts 1995). The report, prepared by the Joint Committee of Public Accounts (JCPA), inquired on the basis of the New South Wales experience into the feasibility of adopting deprival value for the Commonwealth (Funnell and Cooper 1998, 218) and made recommendations for various situations. One of the recommendations made by Report 341 was the need to develop a framework that would assist in the reporting of Commonwealth assets:
As a matter of priority, the Department of Finance and the Australian National Audit Office should develop a framework for the recognition and valuation of Commonwealth assets managed by Commonwealth agencies. The purpose of such a framework is to ensure that all Commonwealth agencies develop and use consistent asset recognition and valuation policies. The lack of such a framework in the interim should not be viewed as a barrier to proceeding with whole of government reporting (Joint Committee of Public Accounts 1995, xviii).

With reforms taking place and the need to refine the measurement methods used becoming of great importance, greater inconsistency was brought to the public sector. Prior to 1995, if an asset was considered too difficult to measure, NSW Treasury valued that particular asset at a dollar, being its nominal price, or completely ignored the asset for reporting purposes. This was the case for the Roads and Traffic Authority for the year ended 1994. While the RTA included in its annual reports the valuation of land under roads, the NSW government did not, resulting in a qualified audit report for the whole of government reports as the estimated net worth of assets understated was thought to be in excess of thirteen billion dollars. The question that the present committee was trying to answer was whether this practice was adequate to continue valuing Commonwealth assets or whether there should be a change to encourage uniformity.

The need for a change in valuation methodology was not supported by all. There were those such as Professor Walker who claimed that the expense of valuing such complex assets would outweigh the benefits.
This was particularly the case for heritage assets which, according to Professor Walker, should simply have a nominal value placed on them:

The process of valuation would be expensive and provide information of little practical benefit to users of whole of government reports (Joint Committee of Public Accounts 1995, 43).

The NSW Auditor General, Tony Harris, did not agree. According to Harris, the asset's ability to provide alternative use or its inability to be measured easily should not determine whether or not these assets were disclosed in the financial reports:

The reluctance to value heritage assets in NSW had been on the basis that such assets have no alternative use and/or are difficult to value...neither basis is seen as an acceptable reason to exempt these assets from valuation (Joint Committee of Public Accounts 1995, 43).

Following in the steps of previous committees, the use of deprival value as an alternative method of valuation was considered by the report, and once again brought a division of opinion. Professor Walker for example, argued that the use of deprival value would lead to information that was not reliable or comparable between financial years. Furthermore, the use of deprival value would result in a substantial difference in the figures produced, had private sector accounting standards been followed (Joint Committee of Public Accounts 1995, 44).

Professor Walker continued to argue the point that deprival value was very similar to Current Cost Accounting which was advocated during the 1970s and rejected by the private sector. However, as
previously demonstrated, the rejection of CCA by the private sector was influenced by the hegemonic environment and domination practiced by accounting authorities earlier in this century and the AARF throughout the later part of this century. Amongst the supporters of deprival value were prominent accounting firms Ernst & Young and Coopers & Lybrand. However, both firms believed that further developments were needed (Joint Committee of Public Accounts 1995, 45).

As has already been discussed, the problematic issue of measurement had been added to by departures from historical cost in the superannuation and insurance industry standards. The adoption of a multiplicity of measurement methods based on deprival value by the public sector added to the complexity of the measurement debate and resulted in a great array of policies being put into practice:

As a consequence there is a wide divergence across Commonwealth agencies in regard to policies such as capitalisation value, rates of depreciation and whether items such as internally developed software should be expended or capitalised (Joint Committee of Public Accounts 1995, 46).

Despite the need to develop a uniform policy of valuing Commonwealth assets, the report predicted that the chances of achieving a single policy were slim:
Because of the wide divergence of assets and liabilities within the public sector, it would not be possible, or appropriate, to determine one standard recognition and valuation policy. Accounting standards only require that policies adopted be consistent within a class of assets or liabilities (Joint Committee of Public Accounts 1995, 46).

Nonetheless, it was still realised that a valuation policy had to be developed:

The Committee believes, however, that a framework for asset recognition and valuation policies can and should be developed for the Commonwealth to ensure all agencies deal with these issues in a consistent manner in the future. The development of such a framework could build on the work undertaken by the Steering Committee on National Performance Monitoring of Government Trading Enterprises (Joint Committee of Public Accounts 1995, 46).

The preparers of Report 341 did not advocate one particular method at that point in time, but did concede that from their studies it could have been assumed that the debate on asset valuation in the public sector would continue for some time yet. In a bid to dampen the debate and confusion, Report 341 put forward several important points that needed to be considered if any progress was to be made (Joint Committee of Public Accounts 1995, 46);

- Where assets are identified as being useful to government in achieving its objectives and can be reliably measured, they should be recognised and valued, which accords with the Committee's understanding of the ED 62 approach;
Where assets cannot be reliably measured they should be given a notional value and listed in an appendix to whole of government reports;

The methodology ultimately adopted and the reasons for its adoption should be clearly stated in whole of government reports; and

Whatever methodology is adopted it should be consistently applied in future years.

**A resolution**

In 1997, two years after the above inquiry, John Fahey, then Minister of Finance, issued a guide to the financial statements of the Commonwealth Government of Australia. The guidelines stated that, as of 1 July 1999, all Commonwealth departments would be required to revalue their property, plant and equipment at de prvival value. Under the de prvival value basis, the following would apply (Department of Finance 1997, 37):

- Assets that would be replaced were to be valued by reference to their current replacement cost;
- Assets surplus to requirements were to be valued by reference to their market value.

Despite such reforms and guidelines being produced and implemented, the issue of measurement is still as complex today as it was thirty years...
ago, and while the debate may still be rife, the public sector looks like continuing with deprival value.

**THE CONTRIBUTION OF THE AUSTRALIAN ACCOUNTING RESEARCH FOUNDATION TO THE MEASUREMENT OF PUBLIC SECTOR ASSETS**

During this period when the public sector began to implement its reforms, the AARF, in its dress of dominance, also began to formulate standards and other professional publications in a bid to assist the public sector with its measurement problems or alternatively to maintain its status quo. Early in 1991, the AARF wrote to various professional bodies overseas, including the United States and New Zealand, in a bid to obtain from them relevant information about developments in other countries in relation to government accounting. All this information was sought in order to assist the Foundation in its project on government accounting:

To ensure that input to the project is obtained from all relevant jurisdictions the Foundation would appreciate learning from you of the current financial reporting requirements in your jurisdiction, and of any developments or initiatives that are currently under consideration whether at a professional or government level. The Foundation particularly wishes to gain access to any relevant reports, studies, exposure drafts or standards or drafts thereof, and would appreciate your assistance in acquiring material you consider relevant (*Archive File* 160, 1991).

The road to developing feasible standards and professional publications on the issue of government reporting was not all plain sailing.
Australia's development was marred by the fact that internal disagreement existed hindering the development of much-needed guidelines and standards. The AARF's incursions into the area of public sector reporting bear a striking resemblance to its approach to inflation accounting. For example, Don Hardman, a prominent academic from the University of Technology Sydney, was commissioned by the AARF to prepare a publication on reporting by government, and was subsequently dismissed. Hardman claimed that the contract between himself and the Foundation was terminated, as he did not reach the right conclusion:

It would appear that my contract was terminated because the conclusions reached in my draft report did not confirm the preconceived views of some AARF employees (Archive File 161, 1990).

The first AARF publication on the issue was *Definition, Recognition and Measurement of Non-Current Physical Assets by Public Sector Reporting Entities: A Guide to Applying Professional Pronouncements* issued in 1992. The purpose of the publication, as stated by the Foundation, was to guide preparers of general purpose financial reports, particularly in relation to non-current physical assets, with not only their definition and recognition but more importantly with their measurement (AARF 1992, 1). The following was stated as the main purpose of the publication

- Identify the relevant Statements of Accounting Concepts (SAC's),
Australian Accounting Standards (AASs) and related professional pronouncements;

- Identify the circumstances in which those pronouncements apply, in order to illustrate the links between the various pronouncements and explain the main provisions of the pronouncements;

- Provide an overview of relevant audit considerations (from the financial report preparer's perspective); and

- Provide an overview of the more significant jurisdictional requirements that apply.

In a bid to achieve its stated objective, the Foundation included in the publication several flowcharts outlining what action should be taken for individual situations. However, the final step of every flowchart simply directs the preparer to applicable accounting standards or guidance releases. In fact, the whole publication resembles an encapsulation of existing standards. It contains extracts from, and discussions of, existing pronouncements that have general and specific relevance to non-current physical assets, their definition, recognition and measurement.

Discussions centre around how assets are defined, recognised and measured in various situations according to applicable standards. For instance, several areas looked at are foreign operations, acquisition of assets and reporting for superannuation and general
insurance assets. Turning to these pages is no different to turning to the standards handbook, as nothing further than the discussion of applicable standards is addressed.

In December 1993, the AARF issued AAS 29 *Financial Reporting by Government Departments*. The standard did not prescribe a particular method of measurement but rather discussed several methods that may be applied in certain circumstances. For assets, which were acquired at cost, AAS 29 proposed that they be valued at cost, while assets which were acquired at no cost, be valued at fair value (para. 24). If fair value was difficult to obtain, AAS 29 proposed that SAP 1 may be referred to as guidance in determining replacement or reproduction cost.

In relation to assets that were previously omitted for financial reporting purposes, AAS 29 states that such assets should be brought to account using the written-down current cost approach. When it came to the difficult task of infrastructure, heritage and community assets, AAS 29 advocated the use of written-down current cost (Para. 8). This was in direct contrast to the way it dealt with land under roads. Being a laborious task, AAS 29 permitted deferring the recognition of land under roads for financial reporting purposes till 1 July 1999.

Three years after AAS 29 was issued, the Australian Accounting Research Foundation issued AAS 31 *Financial Reporting by Governments*. AAS 31 requires all assets to be recognised in financial
reports including infrastructure, heritage and community assets. Once again, AAS 31, did not prescribe a particular measurement method, rather with similar requirements to AAS 29, AAS 31 advocated the use of written-down current cost. As with the accounting for inflation debate, it appears the AARF has chosen to ignore the deliberations and views of a number of public sector committees which perscribed the adoption of deprival value. The AARF has stated that a method of measuring public sector assets will not be specified until conclusion of the conceptual framework measurement project. As already discussed, completion of the measurement project is unlikely to occur in the near future, if ever.

THE DEBATE CONTINUES

Although today there are in place various guidelines both in the private and public sectors as to how to measure assets, there still remain concerns about what is being advocated. Heritage, infrastructure and community assets all form a part of Australia’s culture and society, prices are easily set for admission to national parks and museums, yet controversy arises when these same assets are to be valued. The question of whether or not museum and library collections should be valued and reported in financial statements has resulted in a difference of opinion in the academic arena. On one side of the spectrum you have Carnegie and Wolnizer (1995) who use the argument that no valuation method could do justice to the priceless artifacts that fill
the shelves at museums and art institutions:

To attempt an estimate of the money value of the contents of our museum would be an intellectual vulgarism. Individual art objects can be measured in terms of the market place, but collections created to illustrate the achievement of man's hand and eye lie outside the field of exchange...The concept of a museum as something that can be bought with money is common but misleading (Carnegie and Wolnizer 1995, 44).

On the other side of the spectrum, there are writers such as Micallef and Peirson (1997) who argue that there is no basis to the argument put forward by Carnegie and Wolnizer, claiming that there are many reasons as to why there would be opposition, self-interest being one of them:

The present analysis as well as some of the proposals will meet with heated opposition from the "museum community" and the "world of art". The high realms of "art" will be set against a lowly "commercialization". It has been made clear that such opposition is not surprising because any changes in the existing situation threatens existing interests (Micallef and Peirson 1997, 36).

Comparing Australia to other countries such as the United States, Canada and the United Kingdom, and their attempts to value cultural and heritage assets, Carnegie and Wolnizer (1995) offer a grim outlook to current practices adopted in Australia. With no mandatory legislation in the above mentioned countries of recognising items as assets for financial reporting purposes, the authors argue that there is no need to capitalise heritage and cultural assets in Australia either.
Claiming that such assets are not usually held for their financial status but rather the historical or cultural value that they can add to the country, (Carnegie and Wolnizer 1995, 31). Yet it would seem that the definition of heritage does not preclude commercialisation:

Heritage has been aptly defined as "things we want to keep" -things that we have inherited, and wish our children to inherit in turn. Whatever other value heritage may have, we should never forget that the fundamental reasons for conserving these "things we want to keep" are spiritual and emotional: a sense of belonging and cultural identity, a sense of tradition, a sense of humanity, a wonder at nature and oneness with nature...If there is also commercial value so much the better-providing it can be captured without detriment to the heritage values which are the primary reason for conservation (Senate Environment, Recreation, Communications and the Arts References Committee 1998, xi).

Considering this definition, heritage and other collection assets would seem to fit the description of an asset. After all, these assets are considered to be inherited assets which we want to keep as a community and in the simplest form assets are something that one owns.

Wolnizer and Carnegie (1995), however, have a different perspective. They claim that valuing heritage assets or collections of public art institutions is not possible as they do not meet the necessary requirements of SAC 4. In relation to the first requirement of possessing service potential or a future economic benefit, historical collections, according to Carnegie and Wolnizer (1995, 41), are said to
fail dismally. Rather than provide cash inflow, it is claimed that a greater cash expense is incurred in relation to the preservation and maintaining of such assets. In opposition, Micallef and Peirson agree with the Financial Accounting Standards Board (FASB) and argue that a degree of cash inflow is generated from such sources as admission charges to contradict this argument:

Those items also provide future cash flows from admissions, rentals, royalties and often are the reason for contributions in support of the entity's mission (Micallef and Peirson 1997, 32).

Furthermore, it was argued that cash inflow alone does not determine an asset's service potential or future economic benefit, nor does it reduce the value of an asset:

The fact that not-for-profit entities do not charge, or do not charge fully, their beneficiaries or customers for the goods and services they provide does not deprive those outputs of utility or value (Micallef and Peirson 1997, 32).

Notwithstanding this it is argued that historical collections have a characteristic possessed by all assets, and that is the

scarcce capacity to provide services or benefits to the entity that uses those items (Micallef and Peirson 1997, 32).

The present desire to have everything valued in dollars is seen as a sorry state of affairs considering that life and community resources are not considered to be simply walking dollar signs but represent a greater social value:
We are somewhat barren in our notions on how to measure efficiency. All we can think of is that success, can only be measured in dollars and I think that is a sorry state of affairs. If we accept this and are only driven by the neoclassical economic simplistic belief in the ultimate efficiency of market orientated incentives, then I think we are intellectually bankrupt (Gaffikin 1996, 55).

The second characteristic of an asset is that of control, another characteristic which Carnegie and Wolnizer (1995) claim heritage assets and collections do not meet. As entities that hold them do not have the right to dispose of collections without the prior approval of various statutory authorities. In addition to this, it is argued that the public cannot be denied access to these assets, thus preventing the vital characteristic of control being met. Once again, this argument is rebutted by Micallef and Peirson (1997, 32) who claim that firstly, the restriction on disposal of assets does not in any way preclude the entity in possession of the asset obtaining benefits from the asset in achieving its objectives. Secondly, it is argued that an entity has the ability to exercise control over access to the asset on two grounds. The first ground is that many assets are not permitted to be placed on exhibition thus denying public access to them. Secondly, it is not uncommon for art institutions, historical galleries, national parks and the like, to charge admission fees to view the assets in question. This action in itself prevents certain sectors of the community from enjoying the assets thus exercising a degree of control over their accessibility (Senate Environment, Recreation, Communications and the Arts References 385
Both arguments have merit but just where do you draw the line? After all, it is argued that heritage assets and other collections are there for the enjoyment of the community as a whole. Community values are not expressed in monetary terms or on the market (Senate Environment, Recreation, Communications and the Arts References Committee 1998, 13). When considering that a value can be placed on admission to view such assets, commercialisation has already entered into the equation and these "special" assets become just like any other asset in the business community.

The third characteristic of SAC 4, that of past transactions or events, is one which does not side with the argument put forward by Carnegie and Wolnizer (1995). Both acknowledge that collections and historical assets fulfill the requirements of control being attained from past transactions or events under SAC 4 which allows past transactions or events to take the form of donations, grants, and contributions (Carnegie and Wolnizer 1995, 42).

The measuring of public sector assets is made all the more difficult as it is only a recent concept, in contrast to the private sector, which has, for decades, been troubled by asset measurement. The movement to accrual accounting by the public sector however has meant new and unique assets has surfaced, all requiring to be measured and no clear
When we talk about recognising assets, it is fairly easy in terms of operating assets, as they are the easiest class of public assets, because there is sufficient private sector precedence to go on...there are many more problems which arise in respect of the recognition of infrastructure, heritage and community assets. They are unique to the public sector and there is no private sector precedence (Gaffikin 1996, 57).

CURRENT PRACTICE IN SELECTED INSTITUTIONS

The following are samples of current practice by various institutions in New South Wales and Victoria in relation to historical assets and various collections. The aim of this section is to bring together, in an encapsulation, just how varied current day practices are, and just how much inconsistency there is. What will become evident is that like institutions have varied means of valuing their collections.

State Library of New South Wales

This institution prepared its financial reports for the year ended 30 June 1997 on an accrual basis and valued all assets except property plant and equipment at historical cost. Property, plant and equipment were valued at valuation. Collection assets were also valued uniquely by adopting the cardinal rule of valuing everything at one dollar. This, however, did not include acquisitions for the 1997 year which totaled three million four hundred and seventy eight thousand dollars, these were expensed against operations. The category of assets valued at a
dollar also excludes those collections that were donated to the library, as these were not even considered for financial reporting purposes.

**State Library of Victoria**

The financial year ended 1998 also proved to be a unique year for the State Library of Victoria in that the value of collections was disclosed in the financial statements. Prior to the financial year ended 30 June 1997, only assets acquired after the financial year 1983/84 were included in the balance sheet, assets acquired prior to this period were expensed within the period of acquisition. For the financial year 1996/1997, the task of valuing these collections was completed, and for the financial year ended 30 June 1998, the State Library of Victoria disclosed its collections at replacement value.

**National Gallery of Victoria**

This is yet another institution which, for the year ended June 1998, opted to apply newly developed and released reform practices in relation to collection assets. In relation to works of art and library collections, prior committee recommendations were adopted resulting in the financial statements reflecting the value of these assets. Altogether the inclusion of library collections and works of art had meant that almost six million dollars worth of assets were disclosed in the financial statements.
National Gallery of Australia

Despite adopting the reforms that are taking place, the National Gallery of Australia holds a degree of concern as to the appropriateness of such valuation techniques. Adopting the 1997 guidelines put forward by the then Minister of Finance and in compliance with issued accounting standards and the views of the urgent issues group and taking into consideration the concept statements, the Gallery valued works of art, property, plant and equipment at deprival value. Assets of this nature acquired at a cost of one thousand dollars or less were expensed through the year. Nonetheless, the Gallery considered valuing its collections was incorrect and misleading:

The Gallery fulfilled the government's requirement to value the collection. The financial value of the collection was $1,017,926,550. This is only one criterion of value and the Gallery does not believe it is appropriate to value heritage assets in this manner. The Gallery has corresponded with the Minister on this issue (National Gallery of Australia 1998, 26).

Museum of Victoria

This institution had for the financial year 1997/98 adopted the use of deprival value for the valuation of museum's collections. In relation to property, independent valuers determined the value of plant and equipment owned by the museum.
Museum of Applied Arts and Sciences NSW

For the financial year ended June 1997, the Museum of Applied Arts and Sciences stated that the financial reports were prepared according to applicable accounting standards, public finance and audit act regulations and also considering the statement of accounting concepts. Whilst the financial statements were prepared according to the historical cost convention, there were items of property, plant and equipment that were valued at valuation. The most intriguing issue related to the museum's collections. Not adapting to policy reform, the museum valued all its collections at a nominal amount of one dollar. Purchases made during the year for the collections were expensed whilst any items received free of charge, as a donation or any other form, were valued at their acquisition date with the amount recognised as both a revenue and an expense item in the operating statement.

National Museum of Australia

For the financial year ended 30 June 1997, the National Museum of Australia declared that, in accordance with the guidelines issued by the Minister of Finance in 1997, the financial statements were prepared according to applicable Australian accounting standards and guidance releases. It was also declared that consideration was given to the Concept Statements and views of the urgent issues groups. In opposition to the government reforms that were put into place, the
National Museum of Australia received approval from the Minister of Finance in July 1997 to depart from the stated guidelines. As a result, national historic collection items purchased prior to 1 July 1992 were not required to be brought to account in the financial statements. Collections purchased after 1 July 1992 were recognised as assets for financial reporting purposes and were valued at cost. Items donated after this period were also recognised as assets but were valued according to the tax incentives for the arts scheme.

The Zoological Parks Board of NSW

This annual report includes both Taronga Zoo and the Western Plains Zoo. For the financial year 1996/97, the zoological parks valued animal collections at the nominal value of one dollar, claiming that doing so was consistent with world-wide practice irrespective of the fact that it was in direct contrast to recent government reforms. The valuation of the entire animal collection at one dollar was justified on the grounds that the animals were not considered to be the property of the institution but part of a regional and international collection.

CHAPTER SUMMARY

Whilst this and the previous chapters have by no means tried to put an end to the ongoing debate, they have attempted to demonstrate just how difficult and complex an environment it is when it comes to measurement. On the one hand, the contentious and complex nature
of the measurement issue provides grounds to support the view that completion of the measurement project should be a priority for the accounting profession. On the other hand, given the contentious and complex nature of the measurement issue, the accounting profession should, perhaps, acknowledge that there is not one measurement method for all seasons. The AARF appears to have already embraced this view by the promulgation of the superannuation and insurance standards. The profession, via the AARF, may, in fact, enhance its credibility by admitting that different circumstances justify the use of different measurement methods instead of continuing the pretense that there is one appropriate measurement method for all circumstances and it is only a matter of time before the AARF discovers what it is.

Giving all the more reason for a concept statement on measurement to be issued. However, the more time that goes by before SAC 5 is issued the more difficult it will be to obtain a consensus on the issue, as more and more policies will be put into place independently, thus hindering the prospect of uniformity. The accounting profession in Australia has been plagued by the complexity of asset measurement far too long. The ignorance of accounting authorities to listen to early calls made by members from within the business community and the AARF’s inability to find a solution back in the 1970s has surfaced new problems for accounting practice today. Unfortunately, until a cure is found for the cause, the symptoms will persist.
CHAPTER 8

CONCLUSION

The purpose of this study was twofold. First, the study set out to substantiate claims that the accounting profession is guilty of recycling important financial accounting issues. At the same time, the study sought to identify and explain reasons as to why the accounting profession continues to recycle important accounting issues and is permitted to do so. The primary focus of this study has been on the long standing and controversial issue of asset measurement. While it is acknowledged that measurement is not the only issue subject to recycling by the accounting profession. Using measurement as an example has allowed this study not only to substantiate the above claims, but also demonstrate that the activities of the AARF suggest a self-serving organisation rather than one seeking to serve the public interest.

Substantial focus has been placed on the activities undertaken by accounting authorities throughout the measurement debate this century. Given that the AARF was given the responsibility of finding an alternative to the historical cost method of asset measurement, much of the focus of this study deals extensively with the activities of the AARF. For this reason, a majority of the materials obtained for the purposes of this study are from the archives of the AARF.
The inability of accounting authorities to find an adequate method of asset measurement has cast doubts on the relevance and reliability of accounting information. This is particularly so as it would seem that the accounting authorities are unable to solve the measurement dilemma in spite of years of "apparent" devotion to the issue. By looking back at the activities in relation to asset measurement, that have been undertaken throughout this century the pattern of recycling becomes clear, and the allegation, that the profession is guilty of "doing nothing", is substantiated.

Early in the study, it was demonstrated that the issue of asset measurement was a dilemma faced by Australian accountants for the greater part of this century. This was not, however, unique to Australia as our overseas counterparts also struggled with asset measurement. The only significant difference was that, unlike our counterparts, Australian accounting authorities managed to ignore early criticism condemning the use of historical cost.

In comparison to overseas accounting literature, early Australian accounting literature was not preoccupied with inflation accounting. However, as this study has demonstrated criticism of historical cost was evident in Australia. It appears that any criticism that was voiced largely suppressed or ignored so that the use of historical cost was
apparently more readily accepted in Australia than overseas during these earlier years.

General acceptance of historical cost can be traced back to the early days of accounting when the need to keep accounting simple and convenient was paramount. Despite this acceptance, there were concerns about the possible downfalls associated with overlooking important factors such as fluctuations in the value of assets (*Public Accountant* 1911, 10). Although these concerns were voiced, it was not until the late 1920's that substantial criticisms directed at the use of historical cost were made, questioning accounting practice and accountants.

This criticism was initiated by Wunderlich, an English businessman who, upon arriving in Australia, took an interest in his brother's pressed metal business. Wunderlich subsequently criticised accountants for accepting what he saw as inconceivable irregularities associated with the use of historical cost. Which was justified and supported on the grounds of existing doctrines of accounting. With time, this criticism became stronger until eventually the problems associated with historical cost could no longer be ignored by accounting authorities. The recycling of the asset measurement issue becomes evident in the years following this initial criticism, but did not gain momentum in Australia until the 1960s.
In the wake of a series of often unexpected corporate collapses, the business community and regulators began to question the adequacy of accounting practice and the financial information provided. This rising skepticism of accounting practice concluded with the advent in Australia of double-digit inflation, was not accounted for at the time. Given this, it was not long before the issue of asset measurement once again surfaced, and as this study has demonstrated, the profession was entrusted with the responsibility of finding an alternate method of asset measurement that would bring greater accuracy to the information prepared and presented by accountants.

This responsibility was later entrusted to the AARF which, for the next decade, would claim to be busy working on a solution to the asset measurement crisis. However, as this study has demonstrated, that very little actual development occurred. Despite the AARF dedicating most of the 1970's to the measurement debate, the issue was eventually exhausted and the AARF moved on to the conceptual framework project which, at the time, was becoming increasingly prominent. Ironically, the issue of asset measurement today hinders the completion of the conceptual framework. SAC 5, *Measurement in Financial Accounting* is the next logical step in the conceptual framework project. However, as demonstrated in chapter six, the AARF's measurement program has made little progress in the decade or so since Chris Warrell as commissioned to prepare the measurement theory monograph. Once
again old issues were revisited, as the same dilemmas that faced accountants in previous years were being recycled proving detrimental to the successful development of accounting practice.

Chapter six of this study examined the AARF's role in developing SAC 5, and detailed the controversy that marred its development. Once again, it appears the AARF's need to protect its status quo resulted in slow and inadequate development taking place. For example, the theory monograph was made available to the public in January 1999, more than ten years after Chris Warrell submitted the original version of the monograph to the AARF. Given that the monograph advocates an alternative method to the conventional accounting model (historical cost), it also defends the traditional method to a point of resisting change, it is not difficult to surmise that the tradition of recycling the issue of asset measurement will continue with any future development of SAC 5.

Coincidentally, the monograph's publication coincided with the proposals put forward in the Corporate Law Economic Reform Program (CLERP) initiated by the Treasury department. The aim of these reforms is to review and improve regulation governing Australian business. According to the CLERP proposals this included a review of the institutional arrangements for standard setting in Australia, including giving a high priority to the outstanding issues in relation to the conceptual framework. Given the timing of the monograph's
publication and the doubtful potential of its ability to solve successfully the measurement crisis, this study has concluded that monograph's publication was yet another way for the AARF to mobilise into action protecting itself from the threat of outside intervention.

Chapter seven demonstrated the complexities of accounting practice today by examining the requirements of the superannuation and general insurance standards. Which are clear departures from the traditional historical cost convention. Accordingly, the AARF has chosen to ignore its own objective of uniformity in accounting practice. Rather than advocate a particular method and be committed to the implementation of this method, accounting authorities have preferred to implement adhoc solutions, resulting in various standards advocating the use of various asset measurement methods. Chapter seven further demonstrates the inconsistencies that exist in accounting practice today as it is argued that there are differences in the way the public sector and the private sector deal with asset measurement.

By implementing accrual accounting, the public sector too became enroled in the measurement dilemma, particularly as a great majority of public sector assets consist of infrastructure and heritage assets. Unlike the private sector, the public sector has not hesitated to select and implement an alternative to historical cost moving ahead of the private sector, the public sector has rapidly implemented deprival value across the board. This does not necessarily mean that the public sector
has "solved" the measurement issue. There are a number of difficult and controversial issues to be resolved in terms of the measurement of public sector assets. However, the ability of the public sector to impose a given measurement method on its reporting entities demonstrates the political nature of standard setting in the private sector. In other words, those who determine accounting practices for public sector entities do not have to go through lengthy due process procedures.

Nonetheless, the inability of the private sector to resolve the issue of asset measurement has meant that there exists inconsistency not only within the private sector but also between the private and public sectors. Thus there is inconsistency in the overall scheme of accounting practice with the profession again simply deferring problematic issues rather than solving them.

**WHY IS IT THAT THE ACCOUNTING PROFESSION CONTINUALLY RECYCLES IMPORTANT ACCOUNTING ISSUES.**

Throughout this study it has been argued that the AARF has put its own economic self-interest ahead of the public interest, protecting its status quo rather than developing and implementing lasting and credible solutions. According to the arguments of this study, it is this need to maintain its status quo and combat any outside criticism that leads to the continual recycling of important accounting issues. This study has pointed out numerous occasions where the actions of the
AARF could be considered as self-serving smokescreens, particularly at times when its domination was threatened.

In fact, this study has argued that the formation of the AARF was a political ploy aimed at directing criticism away from professional accounting bodies. The formation of the AARF can be linked to the corporate collapses experienced by Australia during the 1960's, when reportedly healthy corporations failed, causing economic turmoil. Once again, accounting practice was questioned and blame for the economic catastrophe was placed exclusively on the accounting profession. In a bid to save its reputation, this study has argued that the two professional bodies formed the AARF. Ironically, the establishment of the AARF was made possible from monies donated by Stanley Korman, a businessman who was later accused and convicted of undertaking fraudulent business activity. It has also been demonstrated that the donation received by the professional bodies was never widely publicised.

Entrusted with the responsibility of solving the measurement debate, the AARF became preoccupied with protecting its own status quo, often making decisions that sacrificed the public interest in favour of the AARF's own economic self-interest. Throughout chapter five, this study has demonstrated that many of the activities undertaken by the AARF during the 1970's, the peak of the measurement debate, were initiated by the need to combat criticism rather than implement credible and
lasting solutions. Material obtained from the archives of the AARF indicated the lengths to which members of the AARF and its subcommittees had gone to in order to discredit any group or individual that questioned its actions and, more importantly, its motives.

Political games were played which helped limit the amount of negative criticism that was voiced or made public. All too often the time limit given to respond to exposure drafts was unsatisfactorily short, or alternatively a selective exposure would be made, targeting only certain groups and individuals. Furthermore, this study has demonstrated that negative comments were frequently ignored, and exposure drafts were reissued without consideration of the comments received. In addition to this, the AARF had a tendency to concentrate only on the proposals which it put forward, ignoring any outside input, as was the case with Professor Chambers and the AARF's initial unwillingness to make known his alternate method of asset measurement, CoCoA. For critics who dared to voice their arguments the AARF would allege that there was no substantial justification for their claims, and at times were even compelled to try and convince critics that their arguments were unfounded.

The AARF's desire to protect its status quo resulted in very little adequate development taking place, even though more than a decade was being devoted to finding an alternative method of asset measurement. Evidence indicates, the AARF mobilising only when
confronted by a crisis, gave little concern as to whether or not the proposed method was adequate, as long as a method was implemented and the criticism subsequently reduced. The dominant status of the AARF permitted it to mislead the wider business community as to the acceptance of its proposals on a number of occasions. This study has argued that the main reason why important accounting issues are continually recycled has been the need of the AARF to protect its dominance and maintain its status quo. This in turn, provides grounds for allegations that the accounting profession is guilty of "doing nothing".

**HOW IS IT THAT THE ACCOUNTING PROFESSION IS PERMITTED TO CONTINUALLY RECYCLE IMPORTANT ACCOUNTING ISSUES.**

It is argued in this study that the domination enjoyed by the AARF, which permitted it to recycle the important issue of asset measurement, was successfully achieved by the creation of an ideology. In turn, this ideology gave rise to an environment that facilitated the achievement of the hegemonic domination that the AARF desired. To demonstrate this, the study has adopted the translation process of power framework applying it to the actual activities that were undertaken by the AARF in the measurement debate. It was further argued that the sociological issues of isomorphism and accounting discourse, encapsulated in an already created ideological ideal to which society was accustomed, also
assisted the attainment of domination.

Based on Callon's translation process of power and the "traditional understanding" of power it has been argued in this study that the AARF possessed dominance and not power. Using what Machiavelli termed "strategies and alliances", a monopoly was formed that was granted by the actions of others, permitting the AARF to recycle continually the issue of asset measurement and consequently be accused of "doing nothing". Society adopted the ideal which saw the AARF as being the only body able to solve the measurement dilemma. In this way society gave the AARF the ability to dominate accounting activities, define "problems" and seek solutions.

Although the possession of dominance is argued as being a possible explanation of the profession's ability to recycle important accounting issues, it can also be a reason why the AARF continually did so. For, although the AARF may have achieved domination, maintaining this dominant status was difficult and was a battle that had to be continually fought. In line with the power framework adopted in this study, which claims that dissidence can threaten the status of the dominant actor, predators within the framework continually threatened the AARF's dominant status and it was up to the AARF to neutralise threats as they arose.

As a result, rather than looking for a viable and lasting solution to the
measurement debate, the AARF was preoccupied with combating criticism, implementing adhoc solutions and recycling issues in a bid to protect its own economic self-interest. The dominant status enjoyed by the AARF permitted this recycling of important issues to occur, causing old issues to become new again.

In conclusion this study has attempted to substantiate claims that the profession is guilty of "doing nothing" as it continually recycles important accounting issues. Asset measurement throughout this century has been used as an example for purposes of this study. This study argues that the reason why accounting authorities, such as the AARF, recycle important issues can be attributed to their penchant to protect their status quo. Solutions are implemented with a view to combating criticism rather than protect the public interest.

Furthermore, the AARF has been permitted to recycle continually important issues, as it had been the dominant actor in a created ideology in which only the AARF is seen as capable of solving the measurement problem. This hegemonic environment permitted the AARF to dominate over what would be done and when irrespective of whether support from the business community was received or not.

For a greater part of this century, the issue of asset measurement has been essentially ignored. Despite realising that historical cost is not an adequate method of asset measurement, the AARF has not found an
acceptable alternative even though the AARF's self-serving attitude has dictated the road which was to be followed by the accounting profession. Given that one of the most crucial issues of accounting practice remains unresolved, it could be argued that little has been done by the AARF to benefit either or the intents of those the profession is suppose to serve. The validity of accounting practice and accounting information is still questionable and it would seem that the accounting profession, will farewell the Twentieth Century in the same manner in which it was greeted, searching for an adequate method of asset measurement.

While this may be seen as a failure, it could be that the profession is exactly where it wants to be. For if a conceptual framework for accounting is ever completed and accepted, there may well be no need for an accounting profession and, arguably, no need for the AARF (Cooper 1994, 358). Accordingly, it could be the profession has unconsciously taken the advice given to Alice when she asked the Cheshire - Cat where she should go:

Cheshire - Puss, she began, rather timidly, as she did not at all know whether it would like the name: however, it only grinned a little wider. Come, its pleased so far, thought Alice, and she went on. Would you tell me, please, which way I ought to go from here? That depends a good deal on where you want to get to, said the Cat. I don't much care where, said Alice. Then it doesn't matter which way you go, said the Cat. So long as I get somewhere, Alice added as an explanation. Oh, you're sure to do that, said the Cat, if you only walk long enough (Carroll 1982, 57).
APPENDICES

APPENDIX 4.1

---

£10,000 to accountants
- From Mr Korman

Mr Stanley Korman has given £10,000 to the Australian Society of Accountants.

The money will be made available at £2500 a year for five years, to be used to establish a study project or open discussion over.

Mr. Korman announced this gift in the week-end convention of the Australian Society of Accountants in Mt. Eliza.

He gave the main address at the convention.

Mr. A. W. Wick, registrar of the ASA, said today that details of the gift and its application were now being worked out.
I show below an item which it is intended to publish in the Annual Report of this Division concerning the above.

The Committee have asked me to refer the wording to you for your advice as to whether it is correct.

(J. K. BLISS)
STATE ENGR.

STANLEY KORMAN ENDOWMENT

At the Convention held in August, Mr. Stanley Korman, Chairman, Stanhill Consolidated Limited, who was one of the lecturers, made an offer of £10,000 spread over five years to create a readership in international standards of accounting. The offer was gratefully accepted by the General Council who agreed to set up a research Foundation with the predominant object of the solution of practical accounting problems encountered by financial, commercial and industrial organizations. Mr. Korman agreed to make his promised contribution to this new Foundation.

The generous and public spirited action of Mr. Korman is warmly appreciated by Divisional Council.
<table>
<thead>
<tr>
<th>Witnesses to Signatures</th>
<th>Addresses and Description of Subscribers</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. W. ANDERSEN, Secretary,</td>
<td>Thomas Christian BEENES, Chartered Accountant, 414 Collins Street, Melbourne, Victoria.</td>
</tr>
<tr>
<td></td>
<td>Charles Hamilton JOSELYNE, Chartered Accountant, 12 King William Street, Adelaide, South Australia.</td>
</tr>
<tr>
<td></td>
<td>Alfred Barclay GLELAND, Chartered Accountant, 28 O'Connell Street, Sydney, New South Wales.</td>
</tr>
<tr>
<td></td>
<td>Iggill Arthur BRADDOCK, Lecturer in Accountancy, 27 Hovland Road, Magill, South Australia.</td>
</tr>
<tr>
<td></td>
<td>Charles Kenneth DAVIES, Retired, 13 Britton Rise, Glen Iris, Victoria.</td>
</tr>
<tr>
<td></td>
<td>Garrett Ernest FITZGERALD, Company Director, 81 Belrose Crescent, Box Hill P.O. Victoria.</td>
</tr>
<tr>
<td></td>
<td>C. W. ANDERSEN, Secretary, 37 Queen Street, Melbourne.</td>
</tr>
<tr>
<td></td>
<td>J.E. FLEMOTT, Amt, Registrar, 22 Granfell Street, ADELAIDE</td>
</tr>
<tr>
<td></td>
<td>S.J.T. WALTON, Registrar, 6 Wynyard Street, Sydney</td>
</tr>
<tr>
<td></td>
<td>R.L. Keenan, Lecturer, 11 Warrego Crescent, Linden Park, S.A.</td>
</tr>
<tr>
<td></td>
<td>C. W. ANDERSEN, Secretary, 37 Queen Street, Melbourne.</td>
</tr>
</tbody>
</table>

Dated this Twenty-second day of August, 1956.
## APPENDIX 4.5

### ACCOUNTS AND RESEARCH FUNDRAISING

#### STATEMENTS OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31st DECEMBER, 1971

### Income

| Contributions                                      | Amount  
|----------------------------------------------------|---------
| Australian Society of Accountants                  | $7,000  
| The Institute of Chartered Accountants in Australia| $7,000  

| Interest on Commonwealth Government                | Amount  
|----------------------------------------------------|---------
| Special Bank                                       | $2,560  
| Interest on short-term deposits                    | $1,044  
| Bank interest                                      | $88     
| Profit (loss) on sale of publications              | $(7,077) 

**Total Income:** $15,697

### Expenditure

| Expense                                           | Amount  
|----------------------------------------------------|---------
| Audit fees                                        | $103    
| Depreciation - furniture and equipment            | $329    
| General expenses                                  | $684    
| Publication of research survey                     | $291    
| Postage and telephone                             | $534    
| Printing and stationery                           | $503    
| Provision for long service leave                  | $443    
| Research grants                                   | $1,604  
| Rent, cleaning and lighting                       | $2,353  
| Salaries and superannuation                       | $19,911 
| Travelling expenses                               | $2,274  
| Staff advertising                                 | $543    

**Total Expenditure:** $22,765

| **Deficiency for the year**                        | $18,353 |

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STATEMENT OF INCOME AND EXPENDITURE

FOR PERIOD - DATE OF INCORPORATION (21.11.1966) TO 31ST DECEMBER 1967

Income
Contributions -
Australian Society of Accountants
Institute of Chartered Accountants in Australia  20,000

Bank interest  282

Expenditure
Part-time Research Assistance  1,040
Clerical and Typing Expenses  214
Advertising for staff  2,688
General expenses  113
Legal expenses  453
Postage and telephone  131
Printing and Stationery  391
Travelling expenses  1,234

Total Expenditure  6,174

Surplus of income over expenditure  654,108

AUDITORS' REPORT TO MEMBERS OF ACCOUNTANCY RESEARCH FOUNDATION

In our opinion

the accompanying Balance Sheet and Statement of Income and Expenditure
are properly drawn up in accordance with the provisions of the Companies
Ordinance 1962 - 1966 and so as to give a true and fair view of the state
of the Foundation's affairs at 31st December 1967 and of its results for the
period from the date of incorporation (21.11.1966) to 31st December 1967
and

the accounting and other records (including registers) examined by us are
properly kept in accordance with the provisions of that Ordinance.

HUGGERFORD, SPOONER & KELKHOPE
Chartered Accountants

Melbourne, May, 1968.
ACCOUNTANCY RESEARCH FOUNDATION

STATEMENT OF INCOME AND EXPENDITURE

FOR YEAR ENDED 31ST DECEMBER 1962

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<thead>
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<td>20,000</td>
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<td>815,705</td>
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Appendix 4.6
Funding Of The AARF For Year Ended 1993

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<th>Percentage Contributed</th>
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</tr>
<tr>
<td>6</td>
<td>5%</td>
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<tr>
<td>7</td>
<td>1%</td>
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Legend:
- ICAA
- ASCPA
- Attorney-General's Dept
- Comm Dept of Finance
- Other
- Publications
- RIRDC
Appendix 4.6
Funding Of The AARIF For Year Ended 1996

Percentage Contributed

Sources
Appendix 4.6
Funding Of The AARF For Year Ended 1997

[Diagram showing percentage contributions to AARF funding for different sources.]

- ICAA: 21%
- ASCPA: 23%
- ASX: 7%
- Comm Dept of Finance: 4%
- Comm Treasury: 14%
- Publications: 30%
### APPENDIX 4.7


**AARF - Publications**

<table>
<thead>
<tr>
<th>Year</th>
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<th>Title</th>
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<tr>
<td>1968</td>
<td>Research Report</td>
<td>What's Wrong with Financial Statements?</td>
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<tr>
<td>1970</td>
<td>Research Bulletin No.1</td>
<td>A Study of the problems associated with the Audit of Hire Purchase Transactions.</td>
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<tr>
<td>1970</td>
<td>ARS No.1</td>
<td>W.J. Kenley - A Statement of Australian Accounting Principles.</td>
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<td>1972</td>
<td>ARS No. 4</td>
<td>R.J. Walker (assisted by R.J. Hartman) - Takeover Bids and Financial Disclosure.</td>
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**AARF-Accounting Standards Completed**

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<td>ED</td>
<td>Expenditure Carried Forward to Subsequent Accounting Periods.</td>
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<td>1972</td>
<td>ED</td>
<td>The Concepts of Materiality.</td>
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<tr>
<td>1973</td>
<td>ED</td>
<td>Accounting for Extractive Industries.</td>
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<td>1973</td>
<td>ED</td>
<td>The Use of the Equity Method in Accounting for Investments in Subsidiaries and Associated Companies.</td>
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<td>1973</td>
<td>ED</td>
<td>Translation of Amounts in Foreign Currencies.</td>
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<td>Profit and Loss Statements.</td>
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## APPENDIX 4.8


**AARF - Publications**

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<td>1974</td>
<td>ARS No 5</td>
<td>G.W. Beck - Public Accountants in Australia - Their Social Role.</td>
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<td>1975</td>
<td>ARS No. 6</td>
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# APPENDIX 4.8 CONTINUED

## ACCOUNTING STANDARDS COMPLETED

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<td>ED</td>
<td>Events Occurring after Balance Date.</td>
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## APPENDIX 4.8 CONTINUED

### AUDIT STANDARDS AND PRACTICE STATEMENTS COMPLETED.

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<td>Statement of Auditing Standards.</td>
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<td>SAP</td>
<td>CP1</td>
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<td>SAS</td>
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<td>1977</td>
<td>SAP</td>
<td>CP3</td>
<td>Auditors' Reports</td>
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| 1977 | SAP  | CP4  | Auditors' Reports Historical Cost-Current Cost.
Appendix 4.9

Australian Accounting Research Foundation (Reorganisation 1974)

SOCIETY

ACCPA

AOA

Joint Standing Committee (JSC)

ACCA

AICPA

AUSTRALIAN ACCOUNTING RESEARCH FOUNDATION (AARF)

Audit Stds
Committee

(8 members)

Account Stds
Committee

(10 members)

Taxation
Committee

(8 members)

Project
Committees

(8 members)

Project
Committees

Project
Committees

Addit.
Sub-Committee

(4 members)

Staff Support:
Admin. Manager

Staff Support:

Director - Accounting Research
Director - Accounting Practice
Research Assistant(s)
Secretarial Staff
## APPENDIX 4.11

### PUBLICATIONS ISSUED DURING PHASE 3: THE CURRENT COST ACCOUNTING PERIOD (1978-)

**AARF - Publications**

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<th>Year</th>
<th>Publication Type</th>
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</thead>
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<td>1979</td>
<td>Discussion Paper No.1</td>
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### ACCOUNTING STANDARDS COMPLETED

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<tr>
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<tr>
<td>1978</td>
<td>DPS1.2</td>
<td>Popular Statement: The Basis of Current Cost Accounting (amending previous DPS1.2).</td>
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<td>1978</td>
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<td>1979</td>
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<td>Equity Method of Accounting for Investments.</td>
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<td>1979</td>
<td>ED</td>
<td>Accounting for the Revaluation of Tangible Fixed Assets and Investments in the Context of Historical Cost Accounting.</td>
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<td>1979</td>
<td>ED</td>
<td>The Recognition of Gains and Losses on Holding Monetary Items in the Context of Current Cost Accounting (Revised Exposure Draft).</td>
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### AUDIT STANDARDS AND PRACTICE STATEMENTS COMPLETED

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<td>1978</td>
<td>SAP CP5</td>
<td>Existence and Valuation of Inventories in the Context of the Historical Cost System.</td>
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BIBLIOGRAPHY


[1963] Letters to the Editor, January 29, 2.


[1963] Bolt From The Blue' Bid By M.L.C. for Palmer, April 9, 3.

[1963] Behind the Neon Switch, October 30, 7.
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[1982] Objectives and Basic Concepts of Accounting, Accounting Theory Monograph No. 2, AARF.


Hubbard, G. [1982] *Accounting and Reporting for Superannuation Plans, Discussion Paper Number Seven*, AARF.


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Ross, A.C. [1946] Uniform Accounting, Canberra University College.


Wilde, O. [1892] *Lady Windermere's Fan*, Methuen & Co. LTD.


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<td>History of the AARF</td>
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<tr>
<td>Archive File 2</td>
<td>History of the AARF</td>
<td>Seminar paper: Synopsis</td>
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<td>Archive File 3</td>
<td>Materials on accounting for inflation</td>
<td>Inflation and accounts: Discussion paper and fact sheet</td>
<td>1971</td>
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<td>Joint Standing Committee (JSC) and Current Cost Accounting (CCA)</td>
<td>Letter: Regarding price level accounting. To: Kenley, Director of the AARF. From: L.E. Pearce, Secretary, Accounting Principles Committee of General Council, Institute of Chartered Accountants in Australia.</td>
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<td>Memo: Regarding Exposure Draft Similar to the United Kingdom ED 8. To: Mr. L.E. Pearce National Council Accounting Standards Committee. From: A.J Curryer, State Registrar, Institute of Chartered Accountants In Australia.</td>
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<td>CCA Australia</td>
<td>Minutes of meeting: AARF Meeting of Accounting and Auditing Research Committee, Proposed research project on price level and current value accounting.</td>
<td>June 25 1973</td>
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<td>Source: The Australian. Page 2</td>
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<td>Archive File 12</td>
<td>Joint Standing Committee on CCA</td>
<td>Letter: Regarding possible government intervention to accounting practice.</td>
<td>October 29 1974</td>
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<td>To: Balmford, Chairman Australian Accounting Standards Committee.</td>
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<td>From: Harry Levy from Bradmill Industries.</td>
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<td>Letter: Regarding Preliminary Exposure Draft dealing with CVA.</td>
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<td>To: Professor Gynther, University of Queensland.</td>
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<td>From: Balmford, Chairman Australian Accounting Standards Committee.</td>
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<td>Archive File 15</td>
<td>Academics Local</td>
<td>Letter: Regarding Preliminary Exposure Draft dealing with CVA. To: Balmford, Chairman Australian Accounting Standards Committee. From: Professor Gynther, University of Queensland.</td>
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<td>Archive File 16</td>
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<td>Letter: Regarding Criticism of ED 8 To: Balmford, Chairman Australian Accounting Standards Committee. From: Professor Chambers, University of Sydney.</td>
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<td>Letter: Regarding the (political) need to publish an article written by Professor Chambers. To: Rex Thiele, Joint Standing Committee Representative. From: R.F. Munro, Executive Director, Sub-Committee on Society's restructuring. c.c. Mr. G.W. Bottrill.</td>
<td>August 18 1975</td>
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<td>Archive File 18</td>
<td>Materials on accounting for inflation</td>
<td>Memo: Regarding Exposure Draft-Professor Chambers: Accounting for Inflation&quot; To: Members of Administrative Sub-Committee. From: B. Feller, Director Accounting Practice, AARF.</td>
<td>September 10 1975</td>
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<td>Archive File 21</td>
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<td>Letter: Regarding Accounting for Inflation. To: Anderson, AASA ABIA. From: R.F. Munro, Executive Director, Sub Committee on Society's restructuring.</td>
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| Archive File 26 | CCA Individual Firms | Letter: Regarding CVA  
To: Institute of Chartered Accountants of Australia.  
From: L.C. Dunn (Industry) | April 2 1976 |
| Archive File 27 | Review of CPP and CVA Submissions | Report: Of Sydney (and Melbourne) Review Committee on submissions made on the two preliminary exposure drafts, CVA and CPP. | 1976 |
| Archive File 28 | Academics Local | Letter: Regarding second draft of provisional standard on CCA.  
To: Bruno Feller, Director AARF  
From: Reg Gynther, University of Queensland. | August 27 1976 |
| Archive File 29 | Academics Local | Letter: Regarding third Exposure Draft.  
To: B Feller, Director AARF.  
From: Reg Gynther, University of Queensland. | September 23 1976 |
To: B Feller, Director AARF.  
From: K.H. Lissiman, Chartered Accountants. | October 2 1976 |
| Archive File 31 | Overseas correspondence regarding working guide CCA. | Letter: Regarding CCA  
To: B Feller, Director AARF.  
From: T.K. Cowan, Professor of Accountancy. | October 29 1976 |
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<td>34</td>
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<td>35</td>
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To: T.K. Cowan, Professor of Accountancy.
From: B Feller, Director AARF.

Proposed Statement of Provisional Accounting Standards - CCA.
Source: AARF.
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<td>Archive File 42</td>
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<td><strong>Press Release:</strong> By the Institute of Directors. Regarding CCA.</td>
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<td><strong>Survey:</strong> CCA survey conducted by William McCarthy, Financial relations advisors on determining the opinion of the corporate community on the proposed introduction of CCA.</td>
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<td>Letter: Regarding CCA. To: AARF From: Touche Ross and Co</td>
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<td>Submission: Regarding CCA working guide.</td>
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<td>To: The two Professional Bodies.</td>
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<td>From: Building Owners and managers association of Australia.</td>
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<td>To: G.A. Vincent, Secretary, CCA Steering Group.</td>
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<td>From: K.W. Gillespie, General - Manager - Corporate Affairs.</td>
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<td>To: The Director, Accounting Practice, AARF.</td>
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<td>From: A.W. Binks, Acting Secretary, TVX enterprises</td>
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<td>Archive File 58</td>
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<td>Memo: Regarding Current Cost Accounting, compatibility of DPS1.1/309.1 with proposed International Accounting Standard - Accounting for changing prices.</td>
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<td>Archive File 62</td>
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<td>To: Professor Chambers, President, Australian Society of Accountants.</td>
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<td>To: Chairman, AARF.</td>
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<td>From: D.A. Livingston, Chairman, Council of the Authorised Money Market Dealers.</td>
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<td>To: D.A. Livingston, Chairman, Council of the Authorised Money Market Dealers.</td>
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<td>From: J. Balmford, Chairman, CCA Standards Committee, AARF.</td>
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<td>To: J. Balmford, Chairman, CCA Standards Committee, AARF.</td>
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<td>From: Professor Chambers, Office of the President, Australian Society of Accountants.</td>
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To:  
Deputy President  
Vice President  
Chairman, CCA Standards Committee  
Deputy Chairman, CCA Standards Committee  
From: R.N.H. Denton, President, The Institute of Chartered Accountants in Australia. | April 10 1978 |
To: Professor Chambers, President, Australian Society of Accountants.  
From: J. Balmford, Chairman, CCA Standards Committee, AARF. | April 26 1978 |
| Archive File 68 | Recognition of gains and losses submission | Submissions Received: Regarding The recognition of gains and losses on holding monetary resources in the context of Current Cost Accounting. | 1978 |
| Archive File 69 | CCA Papers | Press Release: Regarding Exposure Draft on monetary items under CCA.  
Statement made by Mr. J.F. Storr, President of the Australian Society of Accountants and Mr. J.N. Bishop, President of the Institute of Chartered Accountants in Australia. | August 6 1979 |
| Archive File 70 | Omnibus Ed, Final CCA ED | Letter: Regarding CCA.  
To: The Australian Society of Accountants.  
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To: B. Feller  
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To: Roger Cook, Australian Society of Accountants.  
| Archive File 74 | Joint standing committee on CCA | **Minutes of meeting:** Extract from draft minutes of Joint Standing Committee. Regarding CCA. | July 27 1978 |
| Archive File 75 | Joint standing committee on CCA | **Letter:** Regarding CCA decisions made at JSC meeting.  
To: J. Balmford, Chairman, CCA Standards Committee, AARF.  
From: A.W. Graham, Secretary, Society. | August 7 1978 |
| Archive File 76 | Green File letters Kevin Stevenson December 1976-October 1979 | **Letter:** Regarding possible membership of the Economic Implications Committee.  
To: D.R.Rickard.  
From: K.M. Stevenson, Research Officer. | October 26 1978 |
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<td>Memo: Regarding recommendation for the formation of a Sub - Committee. To: Secretary, Joint Standing Committee. From: Chairman, CCA Standards Committee.</td>
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<td>Archive File 82</td>
<td>Misc. monetary items</td>
<td>Paper: CCA options on the format of external publications. Received from the United Kingdom.</td>
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<td>Letter: Regarding a possible visit to the FASB by an AARF member. To: D.J. Kirk, Chairman, FASB. From: B. Feller, Technical Director, AARF.</td>
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<td>To: Joint Standing Committee</td>
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<td>From: Inflation accounting Management Committee.</td>
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<td>To: Accounting Principles Committee.</td>
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<td>From: W.I. Summons, Director - General, The Institute of Directors in Australia.</td>
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<td>To: Mr. W.J. McGregor, Technical Director, AARF.</td>
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<td>From: E.M. Badawy, Executive Director, Australian Society of Accountants.</td>
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<td>Compliance with accounting standards</td>
<td>Letters: Regarding non-compliance.</td>
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<td>Various letters received and other correspondence in relation to non-compliance with accounting standards.</td>
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<td>Archive File 92</td>
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<td>Article: Regarding revised ruling on audit reports and non-compliance with accounting standards.</td>
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<td>&quot;Accounting crackdown&quot; by Philippa Tyndale.</td>
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<td>Source: Unknown, possibly The Financial Review.</td>
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<td>Letter: Regarding enquiry into public sector superannuation. To: AARF. From: Mr. J. Priddice, of the Department of the Premier and Cabinet Adelaide, South Australia.</td>
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<td>Archive File 96</td>
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<td>Letter: Regarding Exposure Draft - Accounting for defined benefit supperannuation plans. To: Mr. B.A. Rice, President, Australian Society of Accountants. From: B.C. Amond, President, The Institute of Actuaries in Australia.</td>
<td>September 24 1986</td>
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<td>Archive File 100</td>
<td>Superannuation-Industry correspondence</td>
<td>Comments on Discussion Paper No. 7. Accounting and reporting for superannuation plans. To: W.J. McGregor, Assistant Director, AARF. From: Technical study advisories committee Queensland Division, Australian Society of Accountants.</td>
<td>August 1983</td>
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<td><strong>Letter</strong>: Regarding Selective exposure draft in relation to superannuation. Sent to various recipients.</td>
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<td>Superannuation-Selective exposure responses, key issues</td>
<td><strong>Letter</strong>: Regarding selective exposure draft for superannuation. <strong>To</strong>: AARF. <strong>From</strong>: Mr. J. Priddice, of the Department of the Premier and Cabinet Adelaide, South Australia.</td>
<td>March 19 1986</td>
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<td>Archive File 104</td>
<td>Superannuation-Selective ED</td>
<td><strong>Letter</strong>: Regarding Exposure Draft for superannuation. <strong>To</strong>: Mr. W. McGregor, Technical Director, AARF. <strong>From</strong>: B.C. Amond, President, The Institute of Actuaries in Australia</td>
<td>May 23 1986</td>
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<td>Archive File 105</td>
<td>Superannuation-Selective exposure responses, key issues</td>
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<td><strong>Submission</strong>: Regarding Draft Exposure Draft - Superannuation plan accounting. <strong>To</strong>: AARF. <strong>From</strong>: M.P. Goodings, Manager - Superannuation, North Broken Hill Holdings Limited</td>
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<td><strong>Submission Received</strong>: Regarding selective exposure draft on superannuation. <strong>To</strong>: AARF. <strong>From</strong>: Unknown respondent.</td>
<td>May 15 1986</td>
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<td>Superannuation-Selective ED</td>
<td>Submission Received: Regarding Accounting for superannuation plans.</td>
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<td>To: Mr. W. McGregor, Technical Director, AARF.</td>
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<td>From: R.M. Halstead, Investment management department, BT Australia Limited</td>
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<td>Submission Received: Draft exposure draft on Accounting for Superannuation Plans.</td>
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<td>From: Mr. B.D. Cook, Mercer Campbell Cook &amp; Knight</td>
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<td>Submission Received: Draft exposure draft on Accounting for Superannuation Plans.</td>
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<td>Letter: Regarding Accounting for defined benefits superannuation plans.</td>
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<td>Minutes of Meeting: Regarding Exposure Drafts on Accounting for defined Benefit and Defined Contribution Superannuation Plans. Meeting held between the AARF and The Institute of Actuaries in Australia.</td>
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<td>Archive File 117</td>
<td>Submissions-Exposure Draft 38 and Exposure Draft 39, Superannuation.</td>
<td>Submission Received: Deloitte Haskins + Sells submission</td>
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<td>Submission Received: From a member of The Association of Superannuation Funds of Australia Limited, ASFA,</td>
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<td>Regarding Superannuation funds.</td>
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| Archive File 124 | Superannuation Correspondence To 1990 | **Letter**: Regarding Australian Accounting Standard-Financial reporting by superannuation plans.  
**To**: G.P Allen, President, The Institute of Chartered Accountants.  
**From**: The Institute of Actuaries in Australia | February 1990 |
| Archive File 125 | Superannuation Correspondence To 1990 | **Letter**: Regarding financial reporting by superannuation plans.  
**To**: The President of the Institute of Chartered Accountants.  
**From**: The Deputy President of ASFA. | October 8 1990 |
| Archive File 126 | Superannuation Correspondence To 1990 | **Letter**: Regarding financial reporting by superannuation plans.  
**To**: The President of the ASCPA.  
**From**: The ASRB and the PSASB. | July 26 1990 |
| Archive File 127 | Superannuation Correspondence To 1990 | **Letter**: Regarding financial reporting by superannuation plans.  
**To**: W. McGregor, AARF.  
**From**: KPMG Peat Marwick | July 31 1990 |
<p>| Archive File 128 | AARF History File | Report of Administrative Sub-Committee to the Joint Standing Committee | 1976 |</p>
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<td><strong>Memo:</strong> to State President of the Victorian Division.</td>
<td>September 7 1959</td>
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<td>From: Australian Society of Accountants.</td>
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<td>Archive File 131</td>
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<td><strong>Letter:</strong> regarding donation by Stanley Korman.</td>
<td>February 23 1960</td>
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<td>To: Stanley Korman.</td>
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<td><strong>From:</strong> J.A.K. Wicks State Registrar.</td>
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<td>Archive File 132</td>
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<td><strong>Letter:</strong> Regarding donation.</td>
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<td>To: Mr. Korman.</td>
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<td><strong>From:</strong> C.W. Anderson General Registrar.</td>
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<td><strong>Report:</strong> Of Asian and Pacific Accounting Convention.</td>
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<td><strong>Letter:</strong> Regarding the need for more research.</td>
<td>September 28 1959</td>
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<td>To: The General Registrar of the Australian Society of Accountants.</td>
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<td><strong>From:</strong> Mr. Korman.</td>
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<td>Archive File 135</td>
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<td><strong>Memorandum of Association of Accountancy Research Foundation-</strong></td>
<td>August 22 1966</td>
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<td><strong>Formation of the Research Foundation.</strong></td>
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<td>Executive meeting research report - General Council Meeting (Society)</td>
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<td>Archive File 138</td>
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<td>Archive File 139</td>
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<td>Australian Society of Accountants Annual Report or part thereof.</td>
<td>1966</td>
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<td>General Insurance Part A</td>
<td>Letter: Regarding Accounting for the insurance industry.</td>
<td>September 15 1980</td>
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<td>To: Vic Prosser.</td>
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<td>From: A.W. Graham.</td>
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<td>To: Technical Director - AARF.</td>
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<td>From: Mr. Bishop, Manager for Western Australia - Colonial Mutual Life Assurance Society.</td>
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<td><strong>Letter:</strong> Response to August 12 letter (archive file 143) Regarding Insurance Institute study notes.</td>
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<td><strong>To:</strong> Mr. Bishop, Manager for Western Australia - Colonial Mutual Life Assurance Society.</td>
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<td><strong>From:</strong> Mr. W. McGregor, Assistant Director, AARF.</td>
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<td>Archive File 145</td>
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<td><strong>Letter:</strong> Regarding General Insurance industry accounting methods-questionnaire.</td>
<td>May 19 1982</td>
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<td><strong>To:</strong> Various respondents.</td>
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<td><strong>From:</strong> K.M. Stevenson, Technical Director, AARF.</td>
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<td>Archive File 146</td>
<td>Insurance</td>
<td><strong>Letter:</strong> Regarding General Insurance industry accounting methods-questionnaire.</td>
<td>December 7 1982</td>
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<td><strong>To:</strong> Various respondents.</td>
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<td><strong>From:</strong> K.M. Stevenson, Technical Director, AARF.</td>
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<td>Archive File 147</td>
<td>Insurance Registration of Interest</td>
<td><strong>Letter:</strong> Regarding financial reporting for general insurance.</td>
<td>December 9 1985</td>
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<td><strong>To:</strong> Mr. M.N. Nugent, Senior Technical Associate, AARF.</td>
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<td><strong>From:</strong> Mr. Bishop, Manager for Western Australia - Colonial Mutual Life Assurance Society.</td>
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<td>Archive File 148</td>
<td>General Insurance</td>
<td>Letter: Regarding Accounting for general insurance companies. To: Mr. Vic Prosser, President, Institute of Chartered Accountants in Australia. From: Mr. R.G.A. Smith, Chief Executive, Insurance Council of Australia to the Institute of Chartered Accountants.</td>
<td>August 8 1986</td>
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<td>Letter: Response to August 8 letter (archive file 148). To: Mr. R.G.A. Smith, Chief Executive, Insurance Council of Australia to the Institute of Chartered Accountants. From: Mr. B.A. Wright, National President, Australian Society of Accountants.</td>
<td>August 20 1986</td>
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<td>Archive File 150</td>
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<td>Letter: Regarding the work of British Insurers on accounting for insurance. To: Mr. K.E. Loney, Manager, Taxation and Accountancy Association of British Insurers. From: M.N. Nugent, Senior Technical Associate, AARF.</td>
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<td>Archive File 162</td>
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<td>Article: Accountants Criticise Governments: Need for uniform Financial Statements</td>
<td>March 21 1936</td>
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<td>To: Mr. Kenley, Director - Accounting Research, AARF.</td>
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<td>From: G.E. Heeley.</td>
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<td>Letter: Regarding Price level accounting.</td>
<td>April 14 1971</td>
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<td>To: Mr. Kenley, Director, AARF.</td>
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<td>From: L.E. Pearce, Secretary, Accounting Principles Committee of General Council.</td>
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<td>Prepared by Mr. Michael Page.</td>
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The topic area assigned is based on the title of the file as obtained at the AARF.

Given the inconsistent way in which material in the archives of the AARF was filed, at times ascertaining the date of a document proved difficult. Therefore for certain material an approximate date has been assigned based on the reconstruction of archival materials.

Unless stated otherwise, papers found in the archives of the AARF will be presumed to be unpublished.