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COMPREHENSIVE INCOME, AN HISTORICAL PERSPECTIVE. THE DEVELOPMENT OF PROPRIETORSHIP AND ENTITY THEORIES, AN INTERNATIONAL APPROACH

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Abstract

IASB considers that the concept of Comprehensive Income (C.I.) successfully answers financial statements users' needs. In June 2011, IASB and FASB separately issued convergent amendments on the presentation of O.C.I. The Boards also agreed two options to present items of O.C.I. This paper argues that the opportunity should now be taken to carry out further research in order to validate this new approach as being in accordance with existing accounting principles. The IASB and the FASB working jointly on comprehensive income has rekindled the heated twentieth century debate over proprietary versus entity theory. We examine that historic debate for the purpose of better understanding the current issues related to income determination. We suggest that as long as proprietary theory (Sprague, 1908, Hatfield, 1909, Canning, 1929) more recently residual equity theory (Sprouse, 1958) and contrast it with entity theory (Paton and Littleton, 1930. We argue that proprietary theory with its focus on measuring stockholder remains dominant. We then examine why we do not think that comprehensive income will not be adequate to meet users' needs in a global economy.

We then discuss the current IASB standard for measuring comprehensive income and discuss the advantage that entity theory affords in a global economy. We then examine the contemporary literature about "disclosure" (Beretta and Bozzolan, 2004; Hutton, 2004; Beattie and McInnes,

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2006) and "value relevance" (Biddle and Choi, 2006; Ernstberger, 2008; Barton et al., 2010). Our objective is to offer an alternative measure of C.I. based on economic income that will provide all users better information for decision making.

Keyword: comprehensive; fair-value; (un)realization, proprietorship and entity theory

JEL Classification: B15, B25, M41

I. Introduction

The globalization of markets and increasing international co-operation, as well as a worldwide interest in the possibility of harmonizing accounting systems, has focussed attention on the inherent difficulty of drawing up basic accounting principles. Note deletion in sentence, I just put it on track changesThe Financial Accounting Standards Board, FASB, and the International Accounting Standards Board, IASB, are therefore working - through joint projects - to realize a "Conceptual Framework Project", that will lead to an increase in knowledge and understandingof the principles of international accounting convergence.

This international harmonization aims to realize the concept of "Comprehensive Income", i.e. a new accounting framework close to the Financial Accounting Standards Board (FASB) concept, in which inside the (expanded) Income Statement there are also final assets adjustments, monetary exchange variations. However, the Balance Sheet still maintains the asset and liability view consistent with a proprietary (shareholder value) approach

On June 2011 IASB issued the definitive version of the Amendments, IAS 1 as illustrated in the IFR's Presentation of Items of Other Comprehensive Income, which became mandatory by (infra- annual) July 1, 2012. NO PARAGRAPH The main purpose of the IASB amendments is to improve the consistency and the expository clarity of the Other Comprehensive Income (O.C.I.) items, as well as to emphasize that they should have equal prominence with traditional income within a single Income Statement.

With the adoption of the Amendments (in particular by Italian Legislator with Gazzetta Ufficiale June 6, 2012 - UE Regulations), the research proposed in this paper would deepen an understanding of the Comprehensive Income Concept and the related new Framework of Income Statement. The debate over how to classify income is not new; it is a variant of the "clean" versus "dirty" surplus of the early twentieth century (Canning, 1929, Paton and Littleton, 1930) in the United States.

II. Background and Methodology

We read many national and international specialist journals and monographs that analysed past and future changes in accounting doctrine and practice. We did so in order to become familiar with the variety of opportunities presented by the promulgation of the revised international accounting standards

The methodology employed for this research is to review the existing literature in order to comprehend and to forecast the eventual accounting outcome. We conducted an historical analysis of the writings of propreiatry theorists including e.g. Cerboni, Rossi, De La Porte, Degrange and Besta, Schar, Hugli, Sprague, Hatfield) and entity theorists (e.g. Paton, Schmalenbach, Zappa), in a wide variety of countries. Given the FASB amd IASB seeming commitment to shareholder value, we primarily focus on the Anglo American arguments for each of these theories. We suggest that a European perspective might be more appropriate in the latter part of the paper based on our historical analysis.

III. Proprietorship and Entity Theories

In both the Continental and Anglo-Saxon approaches, a high degree of subjectivity still exists in the application of Fair Value statements. But, we note in our discussion of entity thory there that the "matching method" of income determination is equally, if not more subjective, than fair value accouting. We suggest that recognition of the inherent subjectivity of all income determination models is necessary if the FASB is to resolve the basic issues related to fair value income determination. (e.g. Cerboni, Rossi, De La Porte, Degrange and Besta, Schar, Hugli, Sprague, Hatfield) and Entity Theory (e.g. Paton, Schmalenbach, Zappa).

The conventional interpretation of Fair Value, as current income, is in accordance with the Italian Besta's Patrimonialistic accounting system (i.e. the logic of patrimonial change) in which the aim is to represent an increase or decrease in the value of assets.

In Besta's patrimonial system, Total Assets, "A" lead directly to an increase in the value of assets.

Property and the balance sheet liabilities "P", to a diminution in value. See the following formula:

Net Worth = $\sum A - \sum P$

According to Prof. G. Galassi (1980), the fundamental "proprietary" equation appears also to be the basis of Italian Besta's Patrimonial Theory.

Schär's formulation is also interesting:

Cash + Merchandise + Debtors = Creditors + Bill payable + Capital

In the United States, proprietary theory was an imaginitve response to ownership powed by separation of ownership and control. Horowitz (1992: 106) suggests that "by 1900, it was no longer to conceive of shareholders as constituting the corporation" but propretary theorists managed to keep owners at center stage (1). Charles Ezra Sprague (1907: ix), was considered a pioneer by his peers. He viewed accounting "as a branch of mathematical and classificatory science, the principles of accountancy may be determined by *a priori* reasoning, and do not depend on the customs and traditions that surround the art." (2). A simple change in the accounting equation from Assets = Liabilities to Asset = Liabilities + Proprietorship put the owner back on center stage. Sprague (1997: 20) is generally credited with getting widespread acceptance of the expanded equation although Hatfield (1909) provided a more sophisticated model (3).

Sprague's works are interesting because he outlined an an important correlation between accounting, mathematics and economics. He tookinto consideration the fundamental relationship between the accounts of double-entry bookkeeping, symbolized by Cronhelm's equation; as in the following formula:

Positive Properties – Negative Properties = Proprietor's Stock.

Canning (1929: 50-1), a University of Chicago economist, further developed the model by essential and distinguishing features of an each fundamental element of accounting. He wrote that by offering "constructive criticism" of accounting practices, he

hoped to guide accounting theorists. Canning's definitions foreshadowed those used in the latter quarter of the 20th century when the "shareholder value" (decision usefulness) model became preeminent. Canning's concept of an asset as a future service focused on asset/liability valuation and made income determination ressidual. Canning could be labelled the father of the Chicago school; Vatter (1940), Staubus (1958), Sorter (1960) and Beaver (1963) all advocated models that focus on measuring managerial effectiveness increasing stockholders' value.

Challenges to the Proprietary Orientation

William Paton's (1922) dissertation, ***Accounting Theory***, provided the outlines of entity theory. Paton (1922) 52) asked "shall the proprietary or the managerial point of view be adopted in stating the theory of accounts?" He rejected the idea that this is a "matter of tweedledum and tweedledee," suggesting that proprietary theory "has tended to shut the door to all discriminating analysis of the income statement (Paton (1922: 53). He argued that his theory followed practice as the equation Assets = Liabilities was "more rational than prevailing (proprietary) theory" (Paton, 1922: 54). He concluded, "in the case of the large corporation, where a distinct legal entity must be recognized, to label all the equities 'liabilities' is not as far-fetched a procedure as it has been thought to be (4). He advocated changing the accounting equation to Assets (Properties) = Equities to reflect the fact that managers had obligations to all suppliers of capital (creditor and owner) not to just the residual ownership interest. Once again, he called upon practice to justify this change (5). He teamed with A. C. Littleton to develop a classic monograph that outlined entity theory in 1940.

Entity Theory

Paton and Littleton's (1940) monograph is generally credited with development of entity theory that switched accountants' focus from the balance sheet to the income statement and led to widespread acceptance of the historic cost allocation model (6). Their call to focus on revenue and expense measurement had been foreshadowed by the report of and American Accounting Association (AAA) committee, "A Tentative Statement of Accounting Principles Affecting Corporate Reports" in 1936. Paton and Littleton were

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influential members of the committee whose report focused on (1) cost and values (2) measurement of income and (3) capital and surplus (7). The report concluded that "accounting is not essetially a process of valuation, but the allocation of historic cost and revenues to the current and succeeding fiscal periods."(AAA, 1936, 188).

Paton and Lttleton (1940) were not modest in their claims for entity theory; they suggested that their model would enable absentee owners" to assess managerial performance," it would provide "an objective measure of earning power" and it would aid the flow of capital into capable hands and away from unneeded industries" (Paton and Littleton, 1940:3). Their claim that management should not favoring one corporate one interest at the expense of others was rejected by the profession (8). Corporation reports, they wrote, had taken on a public character as they have "become the basic data for the investor, the employee, the consumer and the government. But, after this broad plea, they narrowed their focus primarily to the suppliers of capital (investors and creditors. Their contention that interest, taxes and dividends should all bear the same relationships from an entity perspective, either all were reported as expenses or all as distributions of income, proved totally unacceptable (Paton and Littleton, 1940: 43-4). In short, accountants never accepted the deprivileging of stockholders, inherent in entity theory.

Paton and Littleton (1940) created au aura of objectivity by use of brilliant rhetoric. Assumptions, like "costs attach", made costs akin to barnacles adhering to a ship, depicted "matching" of revenue and expenses as a relatively simple task (9). Costs measure efforts, revenues accomplishments and the net reflects managerial effectiveness" (Paton and Littleton, 1940: 15-6). Their model, with other assumptions, such as verifiable, objective evidence, created an aura of certitude. But, no thetorical strategy has been more effective than the concept of "matching" which implies a 1:1 association and masks the inherent subjectivity of the cost allocation process (10). They claimed the resultant income provides an income measure that would facilitate allocation of capital in a socially beneficial way. Unlike Canning and other proprietray theorists, Paton and Littleton focused on measuring revenues and expenses of a period; thus they defined an asset as an "unamortized cost" or "revenue charge in suspense". The balance sheet became the residual of the income determination process. By 1964, the model led to a host of dangling debits in financial reports. (11) Sterling (1967: 96) reflected the frustration that many theorist felt with the unquestioned acceptance of claims of objectivity implied in the matching model, writing that that except for some theologies, I know of no discipline

other than accounting which induces what ought to be from what is" (12).

Entity Theory attempted to change the orientation of accounting from the focus on ownerships interest to a focus on all corporate constituents. The corporate becomes an autonomous institution, able to manage on its own. In the modern corporate framework. Owners no longer have the key role as in a "patrimonial" enterprise, but represent only an important class among all the other stakeholders. The debate between proprietary and entity theorists became extremely heated and one aspect of the debate, realized versus unrealized income continues in the cuurent comprehensive income debate. The dualism between relative *realized* (Net Income) and *unrealized* (O.C.I.) earnings components emphasizes the "dual role" of financial reporting. On the one hand investors receive relevant financial information about Fair Value of foreign subsidiaries and financial instruments, and as a result they can readily determine the nature and the amounts of related unrealized gains and losses. On the other hand, management performance evaluation can exclude these items whenever compensation committees use only core earnings or net income as a more reliable or objective measure of the managers' performance (13). The issues related to income determination, inherent in the proprietary and entity debate, clearly have not been resolved. We now examine the regulatory process to highlight the continuity of that early debate.

IV. Regulatory process

In 1997 the Financial Accounting Standards Board issued the Statement of Financial Accounting Standard N. 130 (SFAS, 130), reporting Comprehensive Income. In 1993/4, those drawing up the standards in Anglo-Saxon G4 countries (US, UK, Canada, Australia) began joint discussions with an IASC representative, focussing on their existing onceptual frameworks. On October 2002, the IASB and the FASB signed the "Norwalk Agreement" to formalize their commitment to the convergence of US GAAP, Generally Accepted Accounting Principles, and IAS, International accounting standards. In September 2010, the IASB replaced the existing Framework with the Conceptual Framework for Financial Reporting. Comprehensive income was defined in the FASB Concepts Statement N. 6, "Elements of financial statements", (FASB, 1985 and later approved by IASB), as:

the change in equity of a business enterprise during a (given) period (brought

about by) transactions and other events and circumstances, except those resulting from investments by and distributions to owners (of an enterprise).

As a result, Comprehensive Income would now include such other "unrealized" items (compared to the Income Statement) that were part of Owners' equity under previous FASB pronouncements, i.e. SFAS 130. More exactly:

- adjustments to unrealized gains and losses on available-for-sale marketable securities (SFAS, 115);
- foreign currency translation adjustments (SFAS, 52);
- minimum required pension liability adjustments (SFAF, 87);
- changes in market values of certain future contracts as hedges (SFAS, 80).

Other Comprehensive Income issues could be presented either along with the Income Statement (favoured) or in a separate statement of changes in shareholders' equity. In all cases, Comprehensive Income is shown as the sum of Net income and O.C.I., as the following items (ignoring income taxes) (14).

core earnings
+/- unusual and non-recurring items
+/- income from continuing operations
+/- extraordinary items
Net income
+/- Other Comprehensive Income
Comprehensive Income

The main decision of the IASB in revising IAS 1 was to aggregate information in the financial statements on the basis of shared features. IASB decided that owner changes in equity should be presented in the "statement of changes in equity", and separately from non-owner changes in equity. These variations are not classified as gain or loss in subsequent fiscal periods, but directly as the counterpart of an Equity Reserve. Variations in the Revaluation surplus could be transferred as "Retained earnings" in subsequent balance sheets, if in the interim the asset is either utilized or eliminated in accounting terms (compare IAS 1, paragraph 96).

With the 2007 amendments of IAS 1, entering into force on January 1, 2009, the IASB established a new income framework named Statement of Comprehensive Income

that also included unrealized earnings and expenses at the end of fiscal period. Thismainly concerned the appreciation process of the Patrimonial items (to compare IAS 1, paragraph 7, Definitions and paragraphs 81-83 and following, Statement of comprehensive income). The Statement represents unrealized profit arising from changes in Equity (included reclassification adjustments), which are connected to the going concern. Total Comprehensive Income specifies all the components of "profit or loss" previously presented as "other comprehensive income".

The central reason for the introduction of the new income framework is to be found in a growing demand by stakeholders for disclosure of the current value of capital assets. The current fair value reflects a distinctive peculiarity of the ownership or stockholder focus and a proprietary perspective with respect to valuation of non equity items (15). To achieve their objectives, the new framework had to accept the accountability of unrealized gains, which requires presenting an increasing numbers of items on an accrual basis.

In its last review of July 2011, the IASB also considered FASB Statement No. 130. Reporting Comprehensive Income (SFAS 130) issued in 1997. In fact, the requirements in IAS 1 concerning presentation of the Statement of comprehensive income are paralleled by those in SFAS 130. Paragraph BC106 of the Basis for Conclusions (16) however illustrates some differences.

The adoption of 2011 Amendments of IAS 1 by Italian Legislator was reported through the gazette of the Law 146, June 6, 2012 - UE Regulations 475/2012 of European Commission of June 5, 2012.

The amendments did not address which items are presented in O.C.I (17). The main change resulting from them was a requirement for entities to aggregate items on the basis of whether they are potentially classifiable to gain or loss (reclassification adjustments).

The amendments did not change the option to present items of O.C.I. either before tax or net of tax. However, if the items were presented before tax, then the tax relating to each of the two groups of O.C.I. items (i.e. those that might be reclassified as gain or loss and those that will not be reclassified) must be shown separately.

The framework of Total Comprehensive Income is presented in the following sections:

a. Profit or loss;

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b. Other comprehensive income;

c. Comprehensive income for the period, being the total of profit or loss and O.C.I.

In addition to the profit or loss and O.C.I. sections, an Entity must present the following items, as allocation of profit or loss and O.C.I. for the period:

a. Profit or loss for the period attributable to:

- non-controlling interests;
- owners of the parent.

b. Comprehensive income for the period attributable to:

- non-controlling interests;
- owners of the parent.

If an enterprise presents profit or loss in a separate statement it must be in the form of a. above.

In conclusion, a complete set of financial statement should comprise *a*:

1. statement of financial position as at the end of the period;
2. statement of profit or loss and O.C.I. for the period;
3. statement of changes in equity for the period;
4. statement of cash flows for the period;
5. notes, comprising a summary of significant accounting policies and other explanatory information;
6. comparative information in respect of the preceding period;
7. statement of financial position as at the beginning of the earliest comparative preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

V. Fair Value, Economic Value and Postulate of Realization

The new income framework presents all the earnings and expenses recorded in the relevant fiscal period, regardless of whether or not the connected operations are concluded, - as realized and unrealized items. One can readily observe that, on the basis of this accounting interpretation, the new income framework is moving towards an extended income concept, and, therefore, to toward interpretation of Fair Value as Current Value.

Nevertheless, following the comprehensive interpretation, if the income of the financial year does not coincide with the change in Net Worth, a turning point has been reached in traditional Italian accounting doctrine and practice (e.g. Zappa). The Italian Economia Aziendale indeed concludes that for any given period as a going concern, income and equity are no longer considered as autonomous items, but are themselves connected.

The new comprehensive approach favours the stakeholders (first of all the shareholders), who want to understand the accounting effects arising from changes in the market prices of firms' financial assets, however the debate continues over non financial assets. From a propietry perspective value to a shareholder in not the purchase price of investory but its resale price, but recognition of the unrealized gain in income continues to be controversial.

One of the aims of the scope of the research proposed in this paper is the question of why the possibility of change in the economic income of the entity has not yet been considered (18)? He extended income concept should include all the Intangible assets, which are not considered in the financial statements; including Economic Income. For instance, "Fair" value, which is synonymous with "Equitable" value, is not always captured by market prices. Most mainstream accounting practice considers Fair Value as current value, but this is no more than a generally accepted conventional approach (19). The justification for this is that the "objective" evidence of market prices (or replacement costs), can be used to consider realized "relative" capital gain and loss.

Moreover in many circumstances (20) Standard Setters have concluded that it is impossible to extend "Fair Value" criteria to all balance sheets items, which at present favours prudential cost criteria (21).

The academic discussion of international accounting doctrine (Cheng et al., 1993; Dhaliwal, Subramanyam and Trezevant, 1999; Newberry, 2003; Kothari, Leone and Wasley, 2005; Biddle and Choi, 2006; Ernstberger, 2008; Barton et al., 2010, and so on) is in fact a debate about which of the two income approaches – Net Income or Comprehensive Income – is more relevant to financial stakeholders. This discussion is correlated to another dualism concerning the relevance of "Historical Cost" rather than "Fair Value" (with a current interpretation), as the conventional evaluation criteria of Patrimonial issues. However, this debate in the United States does not parallel the European debate in that the FASB has required "fair value" have some objective basis,

i.e., backed by a market price. This is interpreted by market focused U. S. acadmics as "exit values" but they argue that "it is not clear that fair value as exit value enhances or frustrates equity valuations (See Nissan and Penman, 2008).

Is mentioned above, a market price often does not exist, is not easily traced or can be estimated only if it is referred to the future value of realization. Market price is also exposed to continuous oscillations, a critical point if it is to be used in realized income appreciation.

Realized income itself needs a major stabilization. It cannot perfectly represent the income capacity of a given period, because it considers past events rather than future prospects. Fair Value should therefore be estimated through the discounting back of future incomes. The configuration of Economic Income rejects static cost evaluation, because income is a continuous flow as long as the Entity is a going concern. Furthermore book value (or historical value) is also not immune from estimations and conjectures (e.g. assets amortization).

In other words, the determination of Economic Income requires changes in book value, based on other logical criteria.

Economic Value differs from Market Value, understood as realizable value, because the latter represents the evaluation of a sole operator rather than of several of them (i.e. the market), and this is the reason why it is considered more coherent.

The difference between the realizable value (interpreted as market value) and economic value is the value of Goodwill for any financial period under consideration.

The difference arises from the obvious limitation of Net Income, as the synthesis of any financial statement, owing to the absence of a distinction between core income and realized capital gain for cost savings.

The paper would emphasize the opinion following which the Comprehensive Income is to relatively prefer as completeness, rather than the reliability. The proposed programme of research will examine whether comprehensive income is to be preferred as presenting a more comprehensive or complete overview even through it is certainty open to the criticism that it is less reliable. In other words:

Completeness *versus* Reliability (inverse correlation)

The proposed research would clarify how many income configurations (22) are possible, including such concepts as *realized, realizable, current, economic*, each of them with considerable repercussions on the capacity of financial statements to provide useful

information to stakeholders.

The logical link between these income configurations is to be found in the belief that defined income will be "realized". We would, however, stress that realizable and economic income should be considered only as estimates of what realized income is likely to be; but over the whole life of a firm these different income configurations will lead to the same calculation of Final Income (or total income).

Although we argue that the International accounting standards board (IASB) might consider the configurations of realized and current income as alternatives, they are different concepts.

This can be explained by the different economic and cultural approach to be found in the history of Continental Europe (e.g. Italy, Germany, France) on the one hand and of Anglo-Saxon countries (e.g. United States, United Kingdom, Australia) on the other.

Until recently, the main characteristic of Continental Europe was that enterprises obtained their funding from several sources/banks. The accounting aim was mainly to avoid assigning unrealised gains exclusively to preserve the stockholders or creditors. The Anglo-Saxon area was instead characterized by Medium/Large Companies quoted on the official Stock Exchange. The accounting purpose was to provide a "comprehensive" assessment of market value to Shareholders (See the correlation with Entity and Proprietorship Theories, illustrated in the next paragraph). Any harmonisation of the Continental Europe and Anglo-Saxon accounting approaches should eventually lead to an agreed paradigm with in turn generally accepted standards.

VI. Disclosure, Value Relevance and a Compromise

An important question which our research will consider is whether the reporting of Comprehensive Income as discussed above is a useful decision making tool for investors. Much of the information provided by the O.C.I. components would already have been available to the market from other sources, such as the supplementary information given in financial statement notes.

It is interesting to note that the Comprehensive approach to reporting has the potential to relieve a fundamental problem of financial accounting theory. The interests of managers and investors can be reconciled if Net Income is calculated so as to maximize

the correlation between management effort and overall performance, with O.C.I. picking up the other relevant gains and losses that are more or less directly related to effort.

SFAS 130 has ignored any mention of the role of Net Income in motivating managerial performance. Nevertheless, this role seems implicit. Paragraph 66 states that O.I.C. is not a measure of financial performance, implying that Net Income is. This interpretation is reinforced by the fact that SFAS 130 allowed O.C.I. to be included in a Statement of changes in shareholders' equity, that is, separate from the Income Statement.

Nevertheless, it seems that the standard in effect represented a diplomatic compromise between investors' and managers' interests in financial reporting. Investors benefit from the decision-making usefulness of Fair Value accounting; managers seem willing to accept Fair Value accounting provided that resulting unrealized gains and losses are excluded from Net Income. Indeed, this compromise aims to exclude from Net Income *unrealized* gains and losses over which management has relatively little control and which are uninformative about manager effort.

Capital gain (or loss) in fact depends on exogenous events, the conjunction of which is mainly independent from managers' achievements or their oversights (Zappa, 1950, p. 302).

VII. Conclusion

In 1959, the AICPA and academics decided that they needed some sort of general theory, (a constitution) to provide the basis for setting standards in place of the *ad hoc* approach used up to then. When the Accounting Principles Board was formed, proff. Sprouse and Moonitz were asked to prepare a constitution, and *Accounting Research Study 3*, "A Tentative Set of Broad Accounting Principles for Business Enterprises" was produced. The project was viewed as too radical, however, and was never completed.

By 1972, pressure built up again for a better approach. The AICPA formed two committees. One named the Trueblood Committee (Touche, Ross & Co) which produced the Objective of Financial Statements; and the other, named the Wheat Committee (SEC) was to determine how accounting standards should be established. FASB was the result of its report "Establishing Financial Accounting Standards".

In 1976, FASB issued a revolutionary document, the *Discussion Memorandum on the Conceptual Framework for Accounting.* It proposed turning the accounting world

upside down by replacing the Income Statement and the "matching concept" which had been the primary focus of financial reporting since Paton & Littleton's monograph in 1940. In 1984 FASB changed their focus to the Balance Sheet.

The basis for this proposal was the Trueblood Report's reference to the possibility of an Economic concept of Income. The report stated "Accounting measurements of earnings (income) should recognize the notion of economic better-offenses, but should be directed specifically to the enterprise's success in using cash to generate maximum cash".

Hendrickson (1977) pointed out there is a contradiction in this goal, because, "The former goal is the concept of capital maintenance (and income smoothing) and the latter goal is another form of the profit maximization concept or measurement of efficiency. Because measuring capital maintenance is difficult, if not impossible, the pragmatic accountant focuses on profit maximization."

The present research proposal would consider the criteria for a successful standard against as wide as possible a background, in order to examine in more depth the global debates concerning a "high quality standard" (Knutson and Napolitano, 1998).

The differences amid the historical proprietorship and entity perspectives on accounting are central to better understand the recent history of the international accounting standard developments and generally to discussions of accounting theory and practice.

Accounting standard setters can now be guided by the desirability of decision-making usefulness and the reduction of information asymmetry. In particular:

1. *decision usefulness*: the theory of rational investor decision-making can be used to predict decision usefulness;
2. *reduction of information asymmetry*: standard setters should use reduction of information asymmetry in capital and managerial labour markets as in itself a criterion for new standards. Standard setters should also be aware of the informativeness of market price as a conveyor of financial information;
3. *economic consequences of new standards* (Zeff, 1978, pp. 260, ss): the costs carrying out the work of setting a new standard will be imposed on firms and managers.

These criteria are not the only ones relevant to successful standard setting. The legitimate interests of management and other constituencies also need to be considered, as does careful attention to due process.

Finally, our proposed research will consider the generally and conventionally accepted interpretation of the realization postulate, since income is an on-going flow, which can not be related to single moments or fiscal periods (23).

The above-mentioned accounting convention was based also on a fiscal reason, in particular the determination of a prudential income to avoid the allocation of unrealized wealth.

It is interesting that the presentation of the O.C.I. Statement recognises that asset values can be changed, by fluctuations in the trading currency, as well as by variations in market prices. Those "realizable" items could, with the passing of time, become realized as "capital gain or loss" or as "cost saving".

The concept of realization, which connotes wealth, also concerns estimating values. But the inclusion of any objectively quantifiable change of value, even if unrealized, as O.C.I. components, expresses also the concept of "economic income".

Bearing this focus in mind it is remarkable that in the FASB accounting model proposed in the Statement n. 33 of 1979 (24), Net Worth is separately represented as the increasing market price of stocks and other assets, thus differentiating realized and unrealized capital gain (or loss) on non- monetary assets, included cost saving, from the gain (and loss) due to the decreasing buying power of Debts, therefore taking account of monetary trends. This model allows enterprises to draw up disclosure reports, in order to satisfy the needs of financial statement users, which focus on the understanding, and interpretation, of Income and Total Comprehensive Income. This paper, with an historical perspective, would be up in that direction.

End notes

1. This was a continuation of late nineteenth century claims when accounting theorists emphasized the infallibility of accounting. See, for example, Geer (1883: 17), who wrote that.

2. Gaffikin (1987: 19) when evaluating accounting methodology concludes that Sprague's (1908) work did not reflect developed theory, he suggests its significance was the recognition of the need for a more long term intellectual development. I concur; Paton (1922), Scott (1931), Littleton (1933) all cited Sprague's work as critical to development of theory. Hatfield (1908: 67-9) in an early review, disagreed, he found the work lacked

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clarity and did not fulfill its promises.

3. Paton (1922: 51) felt the Hatfield (1909) elevated proprietorship to an even "more important position" by use a two term equation Goods = Proprietorship, with goods being positive goods (assets) - negative goods (liabilities) = proprietorship

4. Paton included these comments in a footnote not in the text

5. See Couchman (1918) for this idea; Paton again referred to practice in a footnote as presenting the view.

6. We have not attempted a complete historical analysis of the evolution of entity theory; Goldberg (1969: 110, 112) credits Harold D. Greeley's ***Theory of Accounts*** (1920), but he appears to use the entity convention and entity theory as synonyms. WeI focus on Paton and Littleton's work because of its widespread use in the United States

7. Comments on the report indicated that "measurement of income" was a complete misnomer since the report discussed classificatory not measurement criteria for the income statement (See Scott, 1937, Rorem (1937) and Husband (1937)

8. An American Institute of Accountants (1941) committee reviewed the monograph and strongly rejected the notions that managers should not favor shareholders; they found the idea that interest should be treated as dividends, a distribution of earning, particularly objectionable. But, they did approve of the cost orientation

9. Paton and Littleton (1940: 13) argued that costs "can be marshaled into new groups that posses real significance" as if cost had a power of cohesion"

10. Littleton (1953: 352) "the central purpose of accounting is to make possible the periodic matching of costs (efforts) and revenues (accomplishments); he viewed this as the "nucleus" of accounting. See Thomas's (1969) monograph for a scathing rejection the claims made for the matching model.

11. Accounting Principles Board Concept Statement #4 defined an asset as Economic resources of an enterprise that are recognized in conformity with generally accepted accounting principles. Assets also include certain deferred charges that are not resources but that are recognized and measured inaccord with generally accept accounting principles (APB #4, 1964, paragraph 32).

12. Paton and Littleton (1940) recognized that the matching model could be easily manipulated so they recommended that one accounting method, such as straight line depreciation or FIFO, be required for all companies. This also was soundly rejected, the great virtue of the matching model was its flexibility to determine when an item

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contributed to revenue, if if did not it remained on the balance sheet as an asset.

13. As seen by AICPA, 1994; FASB, 2001; Beattie and Pratt, 2002; Di Pietra, 2002; Zambon 2002; Beattie, McInnes and Fearnley, 2004; Beretta and Bozzolan, 2004; Hutton, 2004; Beattie and McInnes, 2006; Andrei, 2006; Teodori, 006; Quagli, 2006; Allegrini, 2007; and so on, "disclosure" can be consider crucial in order to improve the quality of financial statements.

14. The "clean" versus "dirty" surplus debate in the 1930s foreshadowed many of the issues in the current debate. Nissley (1939) noted companies far preferred a private burial in stockholders' equity versus a public funeral on the income statement.

15. Nissan and Penman (2008: 6-7) argue the IASB and FASB conceptual frameworks adopt an entity rather than proprietary perspective. They suggest perspective may not matter but write it is important with respect to fair value because only the proprietary perspective requires a strict division between the shareholders' claims and those of others. We believe that the IASB and FASB accepted the entity concept not entity theory. The concept is accepted by most theorists, including proprietary theorists. The confusion between the entity concept and entity theory is prevalent throughout much of the contemporary accounting literature. (See Merino, 2012).

16. The Basis for Conclusions accompanies, but is not part of IAS 1; comparing with the revision of IAS 1 in 2003 and its amendment in 2005, the paragraphs have been renumbered and reorganized as necessary to reflect the new structure of the Standard.

17. The amendments which could be deserved, beyond those in the core text, are the followings: *(Paragraph 85).* The administration must represent additional issues, headings and partial results in the two statements.

(Income statement and other comprehensive income statement) to improve the understanding of the economic and financial outcomes of the firm (paragraph 90). The entity must indicate the tax amount regarding each other comprehensive income issues, included the reclassification adjustments, inside the whole income statement or in the attached notes.

18. Initially FASB did not consider comprehensive income a performance index (See Paragraph 66, SFAS 130), but just an informative element and so, the acceptance of economic values could produce more discretion in the financial

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statement but also a major clearness of the firm reality.

19. The debte about fair value has just started; the debates of the 1960s and 1970s with respect to measurement are being revisited.

20. To deepen see IAS 36, Impairment (comparative parameter to cost model), IAS 16, Property plant and Equipment and IAS 38, Intangibles assets, (allowed criteria but not for goodwill); IAS 40, Investment Property (optional criteria); IAS 39, Financial instruments and IAS 41, Agriculture (mandatory criteria).

21. The IAS/IFRS financial statement maintains a link to the cost model, but one assists the global climb to fair value model as current orientation. The IFRS 9 Financial Instruments (replacement of IAS 39 - paragraph 9) stated the criteria of Fair Value as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction". During the Amendments of the IAS 39 the International Accounting Standard Board introduced in the Exposure Draft n. 2009/5 a new definition of Fair Value similar to the concept of Exit Value (U.S. GAAP concept), that is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (See IFRS 2, Appendix A).

22. To deepen compare Galassi (1980 and 1987) and Barker (2010). The prudence principle is the deciding factor between the income configurations, which needs arbitrariness in the allocation of earnings and costs. Nevertheless the decisions of prudence are subsequent the choices of objectivity (and timing discrepancy) in the accrual basis:

- accounting profit (or book income);
- realizable profit and the opportunity cost as evaluation basis, that is the realizable price with the immediate exchange;
  business profit, economic prospective.

23. The Net Income never can be defined absolutely "realized", since the inclusion of estimated and conjectured items, even if the entire collect of earnings (Compare Italian Authors as Azzini (1957), pp. 49, ss; Masini (1955), pp. 80, ss and Zappa (1957), pp. 895, ss).

24. The information required by the Statement is to be presented as supplementary information in published annual reports to represent:

- income from continuing operations adjusted for the effects of general inflation;

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- the purchasing power gain or loss on net monetary items;
- income from continuing operations on a current cost basis;
- the current cost amounts of inventory and property, plant, and equipment at the end of the fiscal year;
- increases or decreases in current cost amounts of inventory and property, plant, and equipment, net of inflation. Enterprises are required to present a five-year summary of selected financial data, including information on income, sales and other operating revenues, net assets, dividends per common share, and market price per share. In the computation of net assets, only inventory and property, plant, and equipment need be adjusted for the effects of changing prices. The enterprise needs to measure the "effects" of changing prices on inventory, property, plant, and equipment, cost of goods sold, and depreciation, depletion, and amortization expense. No adjustments are required to other revenues, expenses, gains, and losses. This Statement called for two supplementary income computations, one dealing with the effects of general inflation, the other dealing with the effects of changes in the prices of resources used by the enterprise. The Board believed that both types of information are likely to be useful. By Summary of Statement No. 33 - Financial Reporting and Changing Prices (Issued 9/79).

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