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Full Length Research Paper

The domination of the pure form of capitalism over the objectives of financial statements (reporting)

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A careful analysis of four documents related to the formulation of objectives of financial statements (reporting) reveals that they are dominated by the pure form of capitalism. Two documents (the Trueblood Committee's Report and SFAC No.1) are constructed as normative theories based explicitly on the U.S. culture. The other two documents (the IASB's CF and the IASB-FASB's Joint CF) are not constructed in a theory form but implicitly based on the U.S. cultural background. The first two documents are more particular and clear regarding the formulation of the objectives of financial statements (reporting) and supporting arguments (logic). On the other hand, the other two documents are general and vague. Their generality and vagueness are attributed to the unnamed belonging to the cultural background on which the objective of financial statements (reporting) is based. The reason for not declaring the belonging of the cultural background is the fear that the objective of financial statements (reporting) and standards based on them might face an outright rejection by the overwhelming majority of countries in the world.

Key words: Objectives, pure form of capitalism, earning power, cash wealth maximization, financial statements, financial reporting.

INTRODUCTION

Accounting literature is replete with critical articles on various topics related to the relationships between capitalism and accounting. Accounting is characterized as having an obvious bias towards the interest of the capitalistic groups through its emphasis on representing a particular social and political climate (Cooper and Sherer, 1984). Financial reporting, in an endevour to promote profit maximization, contribute to many agonies and silences many injustices (Chwastiak and Young, 2003). The accountant himself is characterized as partisan (Tinker, 1991; Baker and Bettner, 1997). Thus, accounting and the accountant are consciously or are forced to create rather than reflect reality (Hines, 1988) which dispossesses accounting and the accountant of any claim of reporting reality objectively (Hines, 1991). The obvious consequences of all this bias are preserving the interest of the capitalistic groups; that is preserving the status–quo situation, a total neglect of many social dimensions of accounting worthy of reporting to many interested social groups in accounting information who have undisputable influential and decisive role in allowing a commercial entity to come into being and the continuity of this being (Puxty, 1986, 1991) and moral responsibility is, on many occasions, at stake (Watkins, 2003), manifested particularly in the provision of dishonest financial information (Chambers and Crowley, 2003). This bias is also extended to accounting standards designed for international purposes such as international accounting standards (Walker, 2010). Accounting education is blamed for this bias since it disseminates capitalism-based accounting values through marginalism (Tinker, 1980), accounting equation and disclosure (Kelly, 2001) and the goal of maximizing shareholder value (Ravenscroft and Williams, 2004).

However, the above studies lack the focus on three issues. First, they do not specifically reveal the type and characteristics of capitalism that accounting is required to serve. Second, they do not demonstrate how these

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characteristics are reflected in accounting. Third, they do not offer a detailed analysis on specific accounting constituents dominated by capitalism. We use the formulation of the objectives of financial statements (reporting) by professional bodies as a case in point.

The formulation of the objectives of financial statements (reporting) is used in our study to reveal how the characteristics of one form of capitalism (that is the pure form) are reflected. The stock market consists of four important constituents: participants, their decisions, their information needs and their goal. We argue that setting objectives of financial statements (reporting) also necessitate specifying four integrated ingredients: users of financial information, their decisions, their information needs and their goals. If users are mainly represented by shareholders, their decisions are assumed to be only cash-based economic decisions, their information needs are restricted to information useful for assessing the amounts, timing and uncertainty of cash flows of an entity and their goal is only wealth maximization, then these ingredients are exactly required by what we call "the pure form of capitalism"[1]. This form of capitalism best fits the U.S. culture that is characterized by the highest form of individualism in general (Hofstede, 1984), extreme individualism in economic matters (Keller, 2007), extreme self-interest (Friedman, 1970; Kelly, 2001), shareholder primacy (Kelly, 2001), an obsession with profit maximization (Nunan, 1988; Keller, 2007) and consequently with cash wealth maximization as the mantra of capitalism (Ravenscroft and Williams, 2004) or with what is called unlimited accumulation of wealth (Chiapello and Ding, 2005). This obsession is espoused by a professsional accounting body like the FASB which has an authorized responsibility for setting accounting standards in the U.S. All or some of these characteristics are taken for granted by economic theories (e.g. neoclassical economic theories), as well as by accounting theories (e.g. positive accounting theories) and indoctrinated by economics and accounting education (Ravenscroft and Williams, 2004).

Accounting is an ideal channel for fully absorbing and subsequently disseminating cultural values. Disseminating the cultural values of the pure form of capitalism through accounting enhances the current economic domination by the U.S. over the rest of the world. It is in the interest of the U.S., as the super power No. 1 in the world, that economic domination is supplemented by an accounting system saturated with the same doctrines of the dominating economic system. Accounting is more superior to economics in disseminating cultural values because accounting techniques and the figures based on them are born out of specifics values; yet these values cannot be easily felt and/or discovered. Values are masked by the impressively well-organized and sequentially arranged accounting procedures and the ostensible exactitude of neatly presented figures. The absorbent (the brain of the human being) has no choice but to fully take in what the eyes transform out of the picture presented. This exactly resembles anesthesia for an operation. The human being does not feel what is happening to his body (the brain in the case of accounting) until the job is perfectly done and the consequences, being negative or positive, cannot be reversed.

The objective of financial reporting established by the IASB-FASB's joint effort involves the positions of the two boards. Then, it is necessary to analyze their previous positions on the objectives of financial statements (reporting). Their previous positions represented by the Statement of Financial Accounting Concept (SFAC No. 1) issued by FASB in 1978 and amended and reissued again in 2008, and Framework for the Preparation and Presentation of Financial Statement issued in 1998 by International Accounting Standards Committee (IASC) and adopted by IASB in 2001 (hereafter International Accounting Standard Board's Conceptual Framework or IASB's CF). Moreover, we also analyze the report of the study group on the objectives of financial statements issued by the American Institute of Certified Public Accountants (AICPA) in 1973 (hereafter Trueblood Committee's Report). The reason for including the Trueblood Committee's Report is because it helps reveal whether there are historically cultural roots of the pure form of capitalism in the formulation of the objectives of the financial statements (reporting). The four documents are analyzed through three main topics: cultural background, theory structure and particularity versus generality and clarity versus vagueness.

THE IMPORTANCE OF THE OBJECTIVES OF FINANCIAL STATEMENTS (REPORTING)

It is difficult to imagine any action, activity or behavior by a human being or an organization without being based on and led by an objective or a group of objectives. An objective is simply a stimulus and a guide to action. An objective is supposed to be the sole determinant of all what occur subsequently. Once chosen, objectives practically direct and lead an action, activity or behavior. Therefore, it is imperative to carefully set the objectives because all processes subsequent to the choice of an objective might turn out to be destructive or at least a waste of time and resources.

Objectives do not spring from a vacuum. Objectives, particularly as social phenomena, are the results of a long history of interaction among various ideologies

[1]The pure form of capitalism imposes on a contemporary enterprise certain characteristics. Its environment is a pure economic one and based totally on cash transactions. Its stakeholders consist of only the owners group. The social entity is never thought of. Social responsibility is considered to be "fundamentally subversive doctrine" (Friedman, 1970, P. 6). Owners are assumed to only accept wealth maximization. Management is required to be just a replica of the owners. This is a type of metempsychosis world as far as the relationship and the allocation of functions are concerned among an enterprise, its management and its owners.

related to economics, politics, customs, religion, education etc. pervasive in a specific country. Actions subsequent to the objectives adopted are influenced by the same ideologies. It is supposed that based on the objectives chosen, the other elements of a conceptual framework are logically derived. Most importantly, the influence of the objectives is supposed to extend over the setting process of standards. Actually, there ought to be inseparability between accounting standards and the objectives chosen (Anton, 1976). This must be the real fear of the IASB-FASB's Joint CF.

An understanding of the choice of objectives must be based on a clear understanding of the cultural constituents (environment) in a particular country because it is impossible to determine the objectives of financial statements (reporting) without referring to a specific cultural background. Both the Trueblood Committee's Report (AICPA, 1973, p. 13) and the SFAC No. 1 (FASB, 2008, p. 6) make an explicit commitment to the culture (environment) of the U.S. when they formulate the objectives of financial statements (reporting). Both IASB's CF and IASB-FASB's Joint CF avoid an explicit commitment to a specific culture. However, the objectives of financial reporting in both ISAB's CF and IASB-FASB's Joint CF are not without a cultural background. It is only an implicit cultural background. Explicit or implicit, it is inevitable to base the objectives of financial statements (reporting) on a specific cultural background.

CULTURE, THEORY, PARTICULARITY AND CLARITY VERSUS GENERALITY AND VAGUENESS

The development of a conceptual framework is usually looked upon as the first step in the right direction to rationalize accounting standards. This is due to the derivative nature of the conceptual framework when it is based on or constitutes a deductively derived theory. All elements in the conceptual framework are assumed to be logically derived. In this case, it is supposed that less disagreement would occur among the various interested parties on various elements of a conceptual framework as well as on accounting standards.

The importance of a theory is that it allows building an integrated coherent (Hendriksen, 1970; Llewelyn, 2003) and harmonious whole (Kerlinger, 1964) with either less or perhaps no discrepancies among the various elements of a constructed whole, ensures logical sequence, and leads to more particularity and clarity versus generality and vagueness. The particularity and clarity are necessitated by the fact that scientific theories are simply abstractions in a sense that they are focus-oriented. A theory is supposed to represent a fruitful investigation into what perplexes human being about specific element of a specific phenomenon. This means a theory is about discovery (Ryan et al., 2002). To be useful, a discovery must have two characteristics; particularity and clarity, both of which eliminate the perplexities associated with any aspect of specific phenomenon. Particularity ensures sharpness and deepness. Clarity ensures unambiguity, and accordingly further enhances sharpness and deepness.

The first step in building any theory is an adequate choice of a number of premises. In accounting, like all other social sciences, the most important premises are those related to the culture comprising various economic, political and social values. The influence of culture on accounting is demonstrated theoretically, on a multination approach (Gray, 1988; Nobes, 1998), on a specific-nation approach (Harrison and McKinnon, 1986), and empirically (Chanchani and Willett, 2004). Actually, the early development of double-entry system, the cradle of the contemporary financial accounting, is attributed to certain cultural factors (Sombart, 1915; Littleton, 1933; Kam, 1990). Even the relationship between accounting, as a field of inquiry, and values becomes indisputable when Watts and Zimmerman (1990), the godfathers of positivism in accounting and the promoters of value free-based research, modify their position after Tinker et al. (1982) convincingly demonstrate that positive accounting theories cannot be value free.

Formulating a theory for an objective of financial reporting without being based on a specific cultural background leads to abstractionism, resulting in a total lack of connectedness between an incubated (objective) and an incubator (culture) which an objective is supposed to serve. Besides, the lack of the necessary connectedness between an objective and the relevant cultural background does not allow the construction of a theory in social sciences.

On the other hand, it is impossible to formulate an objective of financial reporting without a cultural background. This means that the ISAB-FASB's Joint CF actually has a cultural background reference. However, to promote the IASB-FASB's Joint CF internationally, it would be unwise, as far as the real undeclared intentions and goals are concerned, to particularly (explicitly) specify the elements of the chosen cultural background and name its country of belonging. It is just unpalatable, and sometimes may lead to social upheavals or at least resentment, to declare explicitly that a specific objective of financial statements (reporting) adopted in a specific country is based on the cultural background of a different country. An explicit preference of a foreign culture to our own culture is usually taken as a sign of self-contempt and an inferiority complex. This is a natural predisposition of human beings.

An alternative is to implicitly base an objective of financial statements (reporting) on a specific cultural background. If the elements of the cultural background are not particularly (explicitly) specified and the specific cultural background represented by these elements are not determined, then there will be two consequences. First, a theory cannot be built. Second, generality and vagueness would prevail. As a result, we assume that the lack of an explicit cultural background reference in the derivation of an objective of financial reporting leads to an absence of a theory, and consequently more generality and more vagueness would prevail.

Since it is impossible to formulate objectives of financial statements unless they are connected to a specific cultural background, then the question is: what is the cultural background of the IASB-FASB's Joint CF?

TRUEBLOOD COMMITTEE'S REPORT

A brief introduction

The AICPA established the study group on the objectives of financial statements (usually known as the Trueblood Committee) with the responsibility of specifying the objectives of financial statements. The Trueblood Committee issued a report entitled "Objectives of Financial Statements" that contains twelve objectives (AICPA, 1973). Ten objectives are related to financial accounting of a commercial enterprise (1-10)[2], objective 11 is related to non-for-profit organizations and objective 12 is related to social goals. The objectives are related to financial statements rather than to financial reporting. The Trueblood Committee's Report does not discuss the differences between financial statements and financial reporting.

Cultural background

In 1972, the Trueblood Committee's report connects, in a clear and an explicit manner, its objectives to the U.S. cultural background. For example, the Trueblood Committee's report mentions the following: "…its members agreed to concentrate on the financial environ-ment of the United States" (AICPA, 1973, p. 9), "*In the United States,*-emphasis is added- where the economic system emphasizes private enterprise, individuals and enterprises generally attempt to maximize their own wealth…*In our economy,*-emphasis is added- the attainment of individual economic goals often is encouraged by laws, such as those that define property rights[3], promote competition, and establish efficient markets" (AICPA, 1973, p. 14).

In addition, the cultural dimension is used by the Trueblood Committee's Report as a justification to allow the domination of economic goals over social goals (AICPA, 1973, pp. 53-55). It is noteworthy that the whole U.S. environment is reduced to an economic environment. The use in the above quotation of the phrase "in our economy" is an evidence of this reductionism. This reductionism can be attributed to the type of a capitalistic atmosphere in the U.S. since economic consequences are the perspective through which all other elements of the U.S. environment are looked upon.

Theoretical structure

The Trueblood Committee's report represents a theory for the objectives of financial statements. It has all the required elements of a deductively derived normative theory including minor and major premises, logical sequence, derived conclusions (the objectives of financial statements), and a harmonious integrated whole. This theorization approach is used through the whole of the Trueblood Committee's report and for the derivation of each of the 12 objectives.

The more general premises related to the evolutionary and adaptive nature of accounting as a social system, the connection between objectives of financial statements and the goals they help achieve, the user's information needs, the connection between the objectives of financial statements and the economic environment, the environment of accounting in the U.S., the users and their general needs are first used. Then the Trueblood Committee's report moves to premises of less generality such as the allocation of resources in an efficient way, the role of information in making economic decisions and the maximization tenet.

The objectives of financial statements are formulated in the order from more general to more particular. Objective no. 1 is the most general, whereas objective no. 4 is more particular in specifying information about earning power as the sole information that ought to be provided. Objectives no. 6, 7, 8, and 9 are more particular and clear since the types of financial statements are specifically named and their role in providing information related to earning power is also specifically mentioned.

As an example of a more specific derivation, let us look at objective no. 4: "An objective of financial statements is to provide users with information for predicting, comparing, and evaluating enterprise earning power[4]". To derive this objective, the major premise, related to the primary goal of each commercial enterprise which is "to increase its cash wealth so that over time it can return the maximum amount of cash to its owners" (AICPA, 1973, p. 21), is used. This goal is repeated many times through different words and phrases in chapter 2 which lead to the derivation of objective 4 (AICPA, 1973, pp. 21-24). This is followed and concurrently accompanied by other

[2] The objectives are neither numbered in the Trueblood Committee's Report nor in the SFAC No. 1. We number them in the same order shown in both documents.

[3] This is also emphasized by Grady (1965, P. 24). Grady sets the basic concept of "A Society and Government Structure Honoring Private Property Rights" at the top of a ten basic concepts to which generally accounting standards are oriented.

[4] Earning power is usually used as a measure to check whether an enterprise maximize investors' wealth or not.

premises of less generality such as those related to measurement of the enterprise in terms of its goals, the role of accounting, accounting and economic earnings.

Particularity and clarity versus generality and vagueness

The construction of a deductively derived normative theory, the establishment of a clear-cut connection between the objectives of financial statements and the U.S. culture allow a clear specification in the Trueblood Committee's Report of the user groups, their decisions, their information needs and their goals in a particular and clear approach.

It is true that some generality and vagueness can be discerned in the first two objectives. Since these two objectives are the first in the list of 12 objectives, their generality and vagueness are expected. This is quite understandable since objectives 1-10 are derived in a descending order from more general specification to more particular specification. Objective No. 1 requires the provision of information useful for making economic decisions. Neither the types of economic decision nor the decision makers are identified. Objective No. 2 requires serving those users (that is decision makers) with limited authority, ability or resources to obtain information. Objective No. 3 names two groups, shareholders and creditors, as the prime users of financial information who are interested in predicting, comparing and evaluating potential cash flows in terms of amount, timing and uncertainty. The user groups is further reduced to only one group of users; that is, owners, since, according to the Trueblood Committee's Report, the "overall concept of earning power represents the enterprise's ability to achieve its *ultimate goal*-emphasis is added- of providing maximum cash to its *owners*-emphasis is added" (AICPA, 1973, p. 23).

If objectives Nos. 1, 2 and 3 are combined, then we can infer that providers of capital, owners in particular, are the prime users of financial statements. Also the type of decisions is restricted to be economic decisions. With owners as the prime users, the economic decisions related to publicly held enterprises are restricted within buy-hold-sell of shares in the stock markets.

Objective No. 4 requires the provision of financial information for the assessment of the entity's earning power (the prime focus of the objectives of financial statements). Objective No. 5 requires the provision of information for assessing management's ability to effectively utilize resources of the enterprise. Objective No. 6 requires the provision of both factual and interpretive information useful for predicting, comparing and evaluating enterprise earning power. It is interesting to note that the Trueblood Committee's Report insists on interpretive information, which means it seeks connecting factual information with a necessary supporting logic; that is, what is sought are interpretively derived figures. If objectives Nos. 4, 5 and 6 are combined, then the logically derived wealth maximization goal represents the prime or even the sole goal sought and all financial statements are required to provide information to assess an enterprise's ability in achieving this goal.

The type of information useful for this assessment is related to earning power. The Trueblood Committee's Report leaves no doubt about the focus of financial statements, and accordingly this focus is repeated many times to make its particularization loud and clear. The emphasis on earning power is repeated in objectives No. 7 (related to balance sheet), No. 8 (related to income statement) and No. 9 (related to cash flows statement).

Objective No. 10 is related to the provision of forecasts as long as they enhance the reliability of users' prediction. Since users' prediction is based on earning power, then objective no.10 is a further evidence of the emphasis on earning power.

All these emphases on earning power are based, according to the Trueblood Committee's Report, on a tendency by users to "assess the earning power of publicly held enterprises virtually every day" (AICPA, 1973, p. 23). This demonstrates the insistence of the Trueblood Committee's Report on linking the objectives of financial statements with its surrounding environment.

The objectives formulated in the Trueblood Committee's report fit exactly the pure form of capitalism. Owners (shareholders) are the prime users groups. Cash-based buy-hold-sell decisions are the only decisions that must be served by the information provided. Information on earning power is the sole information that must be provided for continuous assessment of the amount, timing and uncertainty of an entity's cash flows. Cash wealth maximization is the ultimate goal of an entity's owners and must be the ultimate goal of the entity itself.

SFAC NO. 1

A brief introduction

The FASB issued in November 1978 the Statement of Financial Accounting Concepts (SFAC) No. 1: Objectives of Financial Reporting by Business Enterprises (amended and reissued in 2008). The SFAC No.1 includes 7 objectives. All these objectives are specifically related to financial reporting of a commercial enterprise. The FASB's seven members did not reach agreement on five of the 12 objectives of the Trueblood Committee's Report (FASB, 2008, p. 16). The seven objectives are related to financial reporting rather than to financial statements. Financial statements are considered as a central feature of financial reporting (FASB, 2008, p. 5) with the implication that more and better information is usually provided by financial reporting.

Cultural background

SFAC No. 1 establishes the following universally undisputed premise; "the objectives of financial reporting are not immutable- they are affected by the economic, legal, political and social environment in which financial reporting takes place" (FASB, 2008, p. 1). "The objectives in this statement are affected by the economic, political and social environment in the United States" (FASB, 2008, p. 6). To show a true allegiance to this premise, SFAC No.1 devotes a complete sub-section entitled "Environmental Context of Objectives" to the cultural background of the U.S. (FASB, 2008, pp. 6-7). The "United States" has been specifically mentioned four times in this subsection to clearly indicate that the objectives of financial reporting are related specifically to the economic, legal, political and social environment of the U.S.

Unlike the Trueblood Committee's Report, SFAC No.1 is more elaborate on the relationship between the objectives of financial reporting and the U.S. cultural background. However, it is stated that "the objectives in this statement are affected by the economic, legal and social environment in the United States", the focus of the SAFC No. 1 is only restricted to the economic cultural background. Again, there is a type of reductionism. The objectives of financial reporting are either assumed to be only influenced by the economic cultural background or the cultural background of the U.S. consists of only one element; that is economics. In eight paragraphs (9-16) in the SFAC No. 1, almost everything related to the U.S. economy including the main characteristics, stock markets, private enterprises and individuals' tendencies are mentioned. This focus allows more particularity and clarity in the derivation of the objectives of financial reporting.

Theoretical structure

SFAC No. 1 reflects a deductively derived normative theory. It has all the required elements of a deductively derived theory. It starts with major premises and moves in a descending order to minor premises. For example, in order to derive the general objective of providing financial information, "that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions" (FASB, 2008, p. 11), certain major premises are used. Some of these premises are the nature of the U.S. economy, the role of business enterprises in the U.S. economy, the private ownership of the business enterprises, the owners (investors) of the business enterprises, the fate of management being totally handed over to owners (investors), the association between the effectiveness of all elements in the whole U.S. economy and the provision of information useful to those who make economic decisions and the centrality of financial information "that reflect the relative standing and performance in evaluating alternative courses of action and the expected returns, risks and cost of each" (FASB, 2008, pp. 6-7).

However, the deductive approach is also used before and after the section entitled "Objectives of Financial Reporting". In this section, each of the seven objectives of financial reporting is first formulated then followed by relevant premises. Actually, the SFAC No. 1 itself refers to the descending nature of its objectives from more general to more particular. Par. 33 states that "The following objectives of financial reporting flow from the preceding paragraphs and proceed from the more general to the more specific. The objectives begin with a broad focus on information that is useful in investment and credit decisions; then narrow that focus to investors' and creditors' primary interest in the prospects of receiving cash from their investments in or loans to business enterprises…" (FASB, 2008, p. 10).

Particularity and clarity versus generality and vagueness

In par. 24, before formulating the objectives, and under the section entitled "Potential Users and Their Interests", a comprehensive list that contains 23 interested groups in financial information is provided. When Objective No. 1 is formulated in par. 34, this comprehensive list is reduced to include only three groups: investors, creditors and other users. Thus, SFAC No. 1 moves from generality to particularity. However, there is still an element of generality represented by the use of "other users" This gives the impression that the other users need different information.

To avoid the dilemma of different information needs for different users, the hypothesis of common information needs based on common interest is used since it is assumed in par. 25 that all interested groups have common interest in the enterprise's ability to generate favorable cash flows (FASB, 2008, p. 9). This particularization is overemphasized and made imperative in objective No. 2 (par. 37) since "Financial reporting *should*-emphasis is added- provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans" (FASB, 2008, p.11). By mentioning only securities and loans, the particularization is very clear.

However, there are generalization and vagueness related to other users. It is unrealistic to make imperative that all other users are solely interested in financial information useful in assessing the amounts, timing, and uncertainty related to prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. Although the other users do not deal with securities and loans, they are assumed in an imperative way to be interested in cash flows related to securities and loans.

Objective No. 3 is about achieving efficiency related to an enterprise's economic resources, claims to those resources and changes in them. Changes in economic resources and claims on those resources are assumed to indicate the existence of efficiency. Objective No.4 is about the provision of information on the three constituents of a balance sheet: resources, obligations and owners equity. Information about these three constituents is assumed to be useful for identifying strengths and weaknesses and accordingly assessing solvency and liquidity, providing a basis for evaluating the performance during a period and providing "direct indications of the cash inflows potentials of some resources and of the cash needed to satisfy many, if not most, obligations" (FASB, 2008, p.12). Combining objectives 3 and 4 results in a direct emphasis on earning power, that is, the ability of generating and transferring earnings into cash, which reinforces what is required by objective No. 2.

As for the priorities of the financial information, it is clear that SFAC No. 1 gives greater weight to the income statement. This is emphasized at the beginning of SFAC No. 1 and with more particularity and clarity in Objective No. 5. It is stated, in the HIGHLIGHTS, that "The primary focus of financial reporting is information about earnings and its components" (FASB, 2008, p. 2). Paragraph 42 (P. 13) elaborates on the special status accorded to earnings. In particular, SFAC No. 1 restricts judgment on performance through only earnings and its components. The relationship between earnings, earnings power and cash wealth maximization is given an utmost priority in par. 43 based on the assumption that "investors, creditors and others who are interested with assessing the prospects for enterprise's net cash inflows and its ability to generate favorable cash inflows leads primarily to an interest in information about its earnings…*"* (FASB, 2008, p. 9).

This particularization of interest in earnings is further emphasized by SFAC No. 1, in par. 43, by giving information on earnings a very powerful role in *"assessing enterprise's ability to generate favorable cash flows–* emphasis is added**-** than that of the cash flows information itself*"* (FASB, 2008, p. 14).

Objective No. 6 is restricted to the provision of information on cash receipts and disbursements and its usefulness for "understanding the operations of an enterprise, evaluating its financing activities, assessing its liquidity or solvency, or interpreting earnings information provided" (FASB, 2008, p. 14). This is a type of particularization of the relationship between cash movements (cash inflows and outflows) and earning power.

In Objective No. 7, (p. 14), SFAC No. 1 becomes more particular in emphasizing the information on earning power for judging on management stewardship or accountability. Actually, judging on management stewardship is made a function of how owners are faring through assessing an enterprise earning power (FASB, 2008, pp. 14-15).

In par. 52, the whole process of management stewardship is solely based on how the interests of owners are served. All this leaves us with the impression that owners' satisfaction is the focus of the objectives of financial reporting. The initial emphasis on providing information for decisions by investors, creditors and others are replaced by an emphasis on providing information representing the extent to which the interests of owners are served.

What are emphasized by the seven objectives of financial reporting in SFAC No. 1 are owners as the prime users of accounting information, their information needs are mainly restricted to earnings and earning power, their decisions are buy-hold-sell shares in the capital market, and favorable cash flows or cash wealth maximization is their goal. Again, these are the main constituents of the pure form of capitalism.

IASB'S CF

A brief introduction

IASB did not issue a separate report, study or statement on the objectives of financial statements. Instead, the "framework for the preparation and presentation of financial statements" which was issued by IASC, was endorsed literally by IASB. Unlike both the Trueblood Committee's report and SFAC No. 1, IASB formulates the objective of financial statements separately from the users of financial statements. Therefore, there are two separate sections in the IASB's CF: The "Users and their information needs" and "The objectives of financial statements". This separation is unnecessary and unjustified since the objective of financial statements is alluded to in the section entitled "Users and their information needs", and users and their information needs are referred to many times in the section entitled "The objective of financial statements". IASB's CF establishes only one objective of financial reporting[5].

Cultural background

IASB did not discuss any element of the financial statements objectives' cultural background. IASB's standards are promoted for the implementation by various countries with different cultures. To explicitly connect its accounting system to a specific cultural background, IASB will perhaps find no country that would adopt its IFRS except the one whose culture background is favored by IASB. It is just not plausible to publicly favor and promote a

[5] This objective is stated in par. 12 in the following way: "The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to *a wide range of users*-emphasis is added- in making economic decisions" (IASB, 2008, P36).

specific culture by IASB as an international organization that is supposed to be serving the accounting information needs of users in all countries.

There are four elements discussed by IASB in the section entitled “Users and their information needs” and section entitled “The objective of financial statements”, which can be attributed to a specific cultural background. These elements are the specific targeted group of users of financial statements, decisions made by the targeted group of users, information relevant to their decisions and their goals. In par. 10 of the section entitled “Users and their information needs”, investors of risk capital (in par. 9/a investors are only represented by shareholders) are picked up by IASB’s CF as the most important users of financial statements whose information needs must be satisfied (IASB, 2006, p. 35). In paragraphs 12, 13, 14 and 15 of the section entitled “the objective of financial statements”; only the “economic decisions” taken by the users of financial information are emphasized (IASB, 2006, p. 36). The assessment of the stewardship or accountability of management is assumed to be made under the umbrella of economic decisions. This indicates a declared bias to economic decisions. The accounting information relevant to their decisions is plainly stated in par. 15 as that information relevant to evaluate the ability of an entity to generate cash and cash equivalents and the timing and uncertainty of their generation. This is an emphasis on cash wealth. In paragraph 17, an emphasis is placed on their goals, which considers profitability as an important element of performance for its role in predicting the capacity of an entity to generate cash and cash equivalent (IASB, 2006, p. 37). This is an indirect way of requiring information to be useful only in assessing the “earning power” of an entity, and accordingly, conducive to cash wealth maximization.

The same four elements are particularly emphasized in both the Trueblood Committee’s report and SFAC No.1. As a result, we can say that IASB’s objective of financial statements does not lack a specific cultural background. It is the U.S. culture dominated by the pure form of capitalism. This means that IASB’s CF assumes consciously or unconsciously that what is useful for the U.S. is also useful for the rest of the world. This is welcome by the U.S. accounting profession. It is only that IASB’s CF cannot explicitly admit that it bases its objective of financial statements on the U.S. cultural background. If it does, it will enter its whole program in a dark tunnel. One element in this dark tunnel is the big question mark about the hegemony and sacredness of the U.S. cultural background.

Theoretical structure

There is no theory of whatever type through which the objective of financial statements is derived. Paragraphs 15 to 20, explain the role of three financial statements (balance sheet, income statement and statement of changes in financial position) individually and/or jointly in the attainment of the objective of financial statements (IASB, 2006, pp. 36-37). The explanations offered are simply in the form of justifying the emphasis, in an abstract manner, on the contribution of financial statements to provide information only useful for assessing an enterprise’s ability in the generation of cash and cash equivalents including information on the amount, timing and uncertainty of their generation.

When each of the 15 to 20 paragraphs is deconstructed into separate sentences, these separate sentences neither constitute separate logical premises nor do they constitute a logically cohesive whole. For example, Par. 17 consists of the following four sentences: First, information about the performance of an entity (in particular, its profitability) is required in order to *assess potential changes in the economic recourses that it is likely to control in the future* –emphasis is added. Second, information about the variability of performance is *important* –emphasis is added- in this respect. Third, information about performance is useful in *predicting the capacity* of the entity to generate cash flows from existing resource base-emphasis is added. Fourth, it is also useful in *forming judgments about the effectiveness with which the entity might employ its additional* resources–emphasis is added. There is a total lack of a logical sequence between the above four sentences. What is, for example, the connection between the first and the second sentences? In addition, there is a mere repetition. What is the fundamental difference between “*assess potential changes in the economic recourses that it is likely to control in the future”* and *“forming judgments about the effectiveness with which the entity might employ its additional* resources”? These four sentences are, at best, disconnected descriptive statements; and, at worst, a collection of hotchpotch talks. This is a much lamented situation.

In addition, there is usually a lack of providing the necessary justifying logic in each paragraph, as well as a lack of the necessary connection among various paragraphs. For example, par. 12 spells out the objective of financial statements. The objective is neither preceded nor followed in par. 12 itself or in pars. 13 and 14, which are supposedly related to par. 12, by the necessary supporting logic which would lead to an integrated whole. Par. 13 is restricted to the hypothesis of common needs to justify the provision of information useful for economic decisions; and par. 14 is restricted to the provision of information relevant to assess stewardship or accountability of management with an assumption that information useful for decision making is also useful for assessing the stewardship for the accountability of management. There is a combination of what could be regarded as unconnected descriptions and/or assignment of duties or functions. There are also a large number of companies, professional accounting organizations and countries encouraged or coerced to promote and accept

IASB's standards. Yet, the objective of financial statements, which these standards are required to achieve is neither based on a theory nor, at least, supported by well-organized logic.

Particularity and clarity versus generality and vagueness

In the section entitled "Users and their information needs", IASB's CF provides a list of seven groups of users. These groups are ranked in the following order in paragraph 9: present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies, and public (IASB, 2006, p. 35). The IASB's CF is very particular in equating investors with shareholders. Their decisions are also restricted to be buy-hold-sell. The ranking cannot be assumed without a purpose. Given the investors the top of the list indicates a preference or non-neutrality approach to the needs of one particular group of users.

In par. 10, IASB becomes more particular and non-neutral. It is states that *"….investors are providers of risk capital to the entity, the provision of financial statements that meet their needs also meet most of the needs of other users that financial statements can satisfy"* (IASB, 2006, p. 35). Therefore, the information useful for decisions making in capital markets are assumed to be equally useful for the needs of all other users. This requires excuses. Two excuses are presented in par. 10. First, investors are granted a privileged status for being "providers of risk capital". "Providers of risk capital" is used as a justification for the non-neutrality by IASB. Risk capital is assumed as the top of all altruisms and, accordingly, owners must be rewarded by providing them with the information that satisfies their needs. The second excuse is a very bizarre one. It replaces (or even imposes) a non-existential phenomenon (that is similarity of information needs of various groups of users) with (on) an existential phenomenon (that is dissimilarity of information needs of various groups of users). The use of the "most of the needs" in the previous quotation is a type of preemptive logic to avoid criticism for being unrealistic and biased.

In paragraph 12 of the section entitled "The Objective of financial Statements", IASB's CF switches from particularity and clarity to generality and vagueness. It is stated that "The objectives of financial statements is to provide information about financial position, performance and changes in financial position of an entity that is useful to *a wide range of users*-emphasis is added- in making economic decisions" (IASB, 2006, p. 36). "Wide range of users" and "economic decisions" are too general expressions since various and diverse users are interested in various and diverse economic decisions. On the other hand, these two expressions are incompatible. There are many user groups who are not interested in economic decisions. They might be interested in social and environmental decisions. In addition, this is a type of replacing the multi-faceted environment of accounting with only economic environment. Therefore, reductionism is resorted to.

In par. 14 (p. 36), IASB's CF adheres further to generality and vagueness by referring to both the importance of providing useful information for making economic decisions and in assessing the stewardship function of management or the accountability of management for the resources entrusted to it. Unlike both the Trueblood Committee's report and SFAC No. 1, IASB's CF does not clarify how information that is assumed to be useful for cash-based economic decisions to be made by investors (which is supposed to be requiring forward looking approach to the provision of information) can also be useful for judging on stewardship of management, or the accountability of management for the resources entrusted to it (which is supposed to require a backward looking approach to the provision of information). IASB' CF gives two examples falling within two different domains, economic decision making and judging on stewardship of management. Yet, it claims that both falls within the domain of making economic decision; these are hold or sale of investment and reappointment or replacement the management. The decisions related to hold or sell of investment are pure economic decisions which require forward looking information. The decisions related to the reappointment or replacement of management are more related to the governance structure and usually requires backward looking information useful for judging on how management has conducted its responsibilities. The generalization occurs because IASB's CF implicitly assumes that what is useful for cash-based economic decisions is equally useful for judging on stewardship of management. This means that all decisions are based on cash potentials. This is unprecedented generalization of cash capabilities. The vagueness is introduced through a lack of justification for this generality.

Regarding the type of information that must be provided by financial reporting, the IASB's CF is very particular and clear. It assumes that economic decisions are based on one type of information, that is "the ability of an entity to generate cash and cash equivalents and of the timing and uncertainty of their generation" (IASB, 2006, P. 36). Accordingly, the balance sheet (par. 16), the income statement (par. 17) and statement of changes in financial position (par. 18) are all required to provide information useful for assessing an entity's ability to generate cash and cash equivalents. However, IASB, in par. 15, introduces an additional particularity by mentioning four examples (payment to employees and suppliers, payment of interests, repayment of loans and payment of dividends) from which it can be inferred that the relationship between an entity and all users are based on cash payments and receipts. This is a type of particularity dictated by further reductionism of an entity's environment from an economic one to a pure cash environment. However, it is too vague to understand why all decisions made by and for an entity are of an economic nature and that all economic decisions made by and for an entity are only based on cash.

Despite the chaotic status of the IASB's CF (mixing particularity with generality and clarity with vagueness), there is one thing that is sure; shareholders are assumed to be the prime users of information provided by financial reporting, their decisions are cash-based economic decisions or buy-hold-sell decisions, their information needs are centered on the amount, timing and uncertainty of cash and cash equivalents. However, IASB's CF avoids explicitly specifying its position on the goal of the prime user. It is difficult to avoid the combination of shareholders, cash-based buy-hold-sell decisions, and the sole interest in cash and cash equivalents can lead to anything but the goal of cash wealth maximization. As a result, we can say that financial reporting is required to provide information compatible with pure form of capitalism.

THE IASB-FASB'S JOINT CF

A brief introduction

In May 2008, an "Exposure Draft of An Improved Conceptual Framework" was issued by both the IASB and FASB to establish joint conceptual framework. In September 2010 both the IASB and FASB jointly completed and issued the "Conceptual Framework for Financial Reporting". The FASB issued it as SFAC No. 8. The IASB issued it under the title "Conceptual Framework for Financial Reporting 2010". Both are identical with very minor differences. SFAC No. 8 is used in this paper. However, we prefer to use the title "IASB-FASB's Joint CF" because it is more expressive and indicative. The IASB-FASB's Joint CF consists of two chapters. Chapter 1 deals with the objective of financial reporting, and chapter 2 deals with qualitative characteristics and concepts. Our discussion is restricted to chapter 1. Chapter 1 consists of two main parts. The first part, the Objective of Financial Reporting (OBs), consists of 21OBs (OB1 – OB21). The second part is the "Appendix: Basis for conclusions for chapter 1", which consists of 35 bases for conclusions called (BCs), (BC1.1-BC1.35). The BCs includes "reasons for accepting some alternatives and rejecting others" (FASB, 2010, p. 6). Therefore, the BCs are further arguments to support of those in the OBs. The IASB-FASB's Joint CF establishes only one objective[6].

[6]In OB2, the objective of financial reporting is set in the following way: "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling, or holding equity and debt instruments and providing or settling loans and other forms of credit" (FASB, 2010, p. 1).

Cultural background

There is a lack of an explicit discussion of a cultural background in the IASB-FASB's Joint CF. This is replaced by an implicit cultural background references. There are certain repeated terms and expressions which allow the derivation of this implicit cultural background. For example, buying, holding and selling equity and debt instruments, equity investors, holders of debt instruments, participants in stock markets, efficient allocation of resources in capital markets, timing, amount and uncertainty of cash flows, cash, net cash inflows, future net cash inflows, future cash flows, cash returns, an enterprise's ability to generate cash flows, etc. All these indicate what is required by a cultural background favoring the pure form of capitalism.

Theoretical structure

To give the impression that the IASB-FASB's Joint CF is a scientific piece of work, OB1 suggests that the reason for starting with the objective of general purpose financial reporting is that the other elements of the conceptual framework (that is reporting entity, qualitative characteristics, the constraints, useful financial information, elements of financial statements, definition, recognition, measurement, and presentation and disclosure) are logically derived (FASB, 2010, p. 1). This is a promising statement and allows inferring that standards issued later on will be logically constructed through a deductive system.

On the other hand, what is said in OB1 is not followed in the construction of chapter 1 of the IASB-FASB's Joint CF. Surely; there is an absence of a theory. There is even an absence of a logically harmonious whole. This is in harmony with IASB's CF. This lack of a theory extends over pages (1 to 5), which are devoted to the OBs, and pages (6 to 14), which are devoted to BCs. For example, OBs (3 to 11) cannot be considered as a collection of major and minor premises leading to OB2 as a logically derived conclusion since there is no attempt to connect the OBs (3 to 11). Then a logical sequence among them cannot be distinguished. They represent more or less discussions on various unconnected, fragmented, topics. OB3 and OB4 represent discussions of the three groups of users and an emphasis on future net cash inflows to the entity. OB5, OB6, OB8 and OB10 represent discussions of the information needs of the primary users and an implicit reference to the "common information needs" hypothesis. OB7 is about providing information related to the value of reporting entity. OB9 is about the information needs of management. OB11 represents a discussion on the reality of financial statements in that they "are based on estimates, judgments and models rather than exact depictions" (FASB, 2010, p. 3).

Particularity and clarity versus generality and vagueness

The objective of financial reporting stated in OB2 contains two characteristics of a general nature (FASB, 2010, p. 1). First, the provision of financial information that is useful for making decisions. Thus, the types of decision are not specified; that is economic and/or otherwise. Second, the decision makers are divided into three groups: existing and potential investors, lenders and other creditors. None of these groups are identified. Obviously, clarity is missing in OB2.

The generalization in OB2 related to the group of investors is eliminated in OB3 through the identification of the economic decisions taken by this group that is some clarity is introduced. It becomes clear that the decisions are those related to buying, selling or holding shares and debt instruments. Accordingly, the decision makers can be easily identified. To some extent, the group of lenders is determined through identifying decisions made by them which include providing and settling loans. It is not known who make these loans; banks, financing houses, other institutions or individuals. The group of other creditors and their decisions are never identified. Thus, the IASB-FASB's Joint CF prefers particularity in case of equity investors and holders of debt instruments, mixing generality and particularity in case of lenders, and absolute generality in case of other creditors. This may give the impression that the emphasis of the objective of financial reporting is on investors' equity and debt instruments' holders and their decisions.

In BC1.15c, users are divided into two groups: primary users and all types of stakeholders (FASB, 2010, P. 9). However, the information needs of these two groups are not grouped into two types. There is only one type of information needs. It is the information needs of the primary users which are assumed to be likely useful to "all types of stakeholders". This type of generalizing the usefulness of information needs of one group to all other groups is not justified. Once groups are different, their information needs are also different.

The problem with satisfying the information needs of the primary users is that this group is looked upon as a cohesively intimate group (a totally single homogeneous group) rather than a collection of groups with diametrically opposing information needs. Actually, the IASB-FASB's Joint CF concedes to this fact in OB8 when it is stated that "Individual primary users have *different and possibly conflicting information needs and desires*"- emphasis is added- (FASB, 2010, P. 2). Bondholders prefer less courageous (less risky) decisions, modest profit and the availability of a minimum idle cash to insure the payment of interest and the repayment of principal on due dates. On the other hand, shareholders are interested in more courageous (more risky decisions) that bring the highest possible return to insure maximum dividends and appreciation in their shares in the stock capital markets. Then, the question is that: is it possible to satisfy the information needs of these two groups though information about returns that is useful for creation of perceptions related to an entity's ability to generate future cash inflows as is mentioned in OB3? Besides, this type of information is different from information required by the remaining groups, that is lenders and other creditors. For example, suppliers are not interested in this long-run approach. They are usually interested in information related particularly to the availability of cash, and less interested in whether an entity achieves profit or loss. Their focus is on short- run. This is diametrically opposite to the interest of both shareholders and holders of debt instruments.

To summarize, the formation needs of one sub-group within the primary group, that is shareholders and holders of debt instruments, is set at the particularity level. Their information needs are generalized. This generalization results from the assumption that their information needs are identical and specifically restricted within return (variability and components) that is useful for creation of perception about an entity's ability to generate future cash inflows. Once the information needs are particularized, then there must be a particular group interested in the particular information.

The IASB-FASB's Joint CF tries to be more general and vague as far as earning power is concerned. Earning power per se is never mentioned in the IASB-FASB's Joint CF. However, the elements constituting earning power are mentioned in many places in IASB-FASB's Joint CF. First of all, cash, cash flows, future cash flows and net future cash flows are mentioned 16 times in 11 OBs out of 21 OBs. This indicates again that economic decisions are about or based on cash. Thus, the whole financial reporting environment is reduced to cash-based economic decisions. In OB3, it is clear that cash return is the most important. It is stated that "Investors', lenders', and other creditors' expectations about *returns*–emphasis is added- depends on their assessment of the amount, timing, and uncertainty of (the prospects for) *future net cash inflows* –emphasis is added- to the entity. Consequently, existing and potential investors, lenders, and other creditors *need information* –emphasis is added- to help them assess the prospects for *future net cash inflows*- emphasis is added- to the entity" (FASB, 2010, pp. 1-2). In addition, the relation between financial position, income statement and changes in financial position and cash generation ability by an entity is also emphasized in OBs 4, 14, 15, 17, and 18.

Three elements of the pure form of capitalism are emphasized. These are the cash-based economic decisions (buy-sell-hold), information on earning power and cash wealth maximization.

It is true that IASB-FASB's Joint CF does not explicitly show any favoritism to shareholders. Since these three elements are more prominent and they fit the pure form of capitalism, then the explicit avoidance of favoring shareholders is necessitated by showing ostensible neutrality to facilitate the promotion of any subsequent pronouncements based on continuous joint efforts by the IASB and FASB. The IASB-FASB's Joint CF tries to be more general and vague because it is fully aware that the direct involvement of the FASB at the international arena requires giving the impression that it does not intend to promote the U.S. culture.

CONCLUSIONS

This paper develops a theory based on three complementary parts: culture, theoretical structure and particularity and clarity versus generality and vagueness. For any accounting theory, a culture reflected by a number of major premises represents the necessary threshold that directs the other parts of the theory. Thus, particularity is ensured since a theory is born out of a specific culture and accordingly could be regarded as constructive contributor to that culture. Clarity is also guaranteed since the connection between a specific culture and theoretical structure avoids unnecessary interpretations. This is because a specific culture (premises) leads to a specific conclusion. When formulating the objectives of financial statements (reporting), both the Trueblood Committee's report and the SFAC No. 1 make an explicit commitment to the culture (environment) of the U.S. This allows both documents to formulate objectives for financial statements (reporting) molded to serve the four elements of the pure form of capitalism: owners (shareholders), the cash-based economic decisions (buy-sell-hold), the provision of information on earning power and the goal of cash wealth maximization. The connection between a specific culture and the theoretical structure ensures specific conclusions (objectives) that fit the pure form of capitalism. Generality of a theory is restricted to a culture identical to that of the U.S. Thus, an objective of financial statements (reporting) based on the U.S. culture can be of no use in a different culture since the U.S. culture is unique as any other culture of any other country. U.S. exceptionalism is a clear reflection of this uniqueness (De Lange and Howieson, 2006). Particularity and clarity are necessary ingredients of both the Trueblood Committee's Report and the SFAC No. 1. The objectives in both the IASB's CF and IASB-FASB's Joint CF also reflect the four elements of pure form of capitalism. Yet these two documents avoid an explicit commitment to a specific culture. However, a careful analysis of these two documents clearly reveals that they do not lack a specific cultural background since it is inevitable to avoid leaning on a specific cultural background whenever an accounting concept is formulated. The characteristics of the economic setting provided by the IASB's CF and IASB-FASB's Joint CF leaves no doubt that the objectives formulated by them fit the U.S. culture. There are two main differences between the former two documents (Trueblood Committee's report and the SFAC No. 1), and the latter two documents (IASB's CF and IASB-FASB's Joint CF). First, in the former two documents, the U.S. cultural characteristics are formally discussed and logically connected among themselves and to the objectives of financial statements (reporting). In the latter two documents, the characteristics of the U.S. culture are scattered here and there in order to camouflage the true origin of the cultural background of the objectives of financial statements (reporting). Second, in the first two documents, a theoretical structure based on logical sequence is constructed. In the latter tow documents, a theory is naturally missing. The reason for this chaotic situation in both the IASB's CF and IASB-FASB's Joint CF is that they cannot explicitly admit that the formulated objectives are based on the pure form of capitalism which is born out of the U.S. culture. The doctrines of the pure capitalism in many countries around the globe are either weak or do not exist. One obvious consequence of adopting the objective of financial reporting formulated in the IASB-FASB's Joint CF and the subsequent implementation of IFRSs by these countries is the dissemination and domination of the doctrines of the pure form of capitalism. Ideological domination is the perfect tool for all political, economic and military hegemony.

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