For some years now, the leading Accounting Standard Setters FASB and IASB dissociate themselves from financial statement traditions. Concentrating on inevitably imperfect indicators of performance achieved in the past traditional statements seem to be of little relevance. This objection, of course, ignores the fact that lack of laws in natural sciences' quality will always prevent veritable prognoses of future cash flows induced by investments - core valuation bases and objects of interest. Modern theory, instead, inquiring into a model world of perfect and complete markets in equilibrium, a given set of goods and technologies, absence of transaction costs or taxes, perfect divisibility of goods and homogeneous expectations concerning both future states of the world and corresponding asset returns discovered the existence of absolutely perfect kinds of value: fair values. Though just an implication of the starry-eyed conditions assumed, this vision paved the way for a veritable revolution initiated without mayor delay. At the beginning of the new millennium FASB and SEC pleaded for a priority of assets and liabilities over revenues and expenses. In varying extents, also, fair valuation has become an essential part not only of SFAS and IFRS but also - by choice of the Member State or the particular company - of financial statements according to Directive 2013/34/EU, art. 7. Moreover, extensive agreement on general guidelines concerning the details of Fair Value Measurement was reached by SFAS 157 and IFRS 13. Finally, Reliability as a mayor characteristic of

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*Contributing to the special edition on the occasion of the retirement of Prof. Koji Kurata is a great honor. As an outstanding expert in reliable traditional accounting Prof. Kurata is able to shed bright light especially on modern accounting innovations like comprehensive income and International Accounting Harmonization.

1 Ballwieser et al. 2004 pp. 530-531.
2 Johnson 2004
financial statements according to the old IASB Framework was replaced by Faithful Representation in order to redress harsh restrictions on fair valuation.\(^3\)

Examined in sober light the conditions assumed in an ideal world of perfect and complete markets are quite different from those in real life. Based on the logic of the fair value vision one could also - by referring to paradise - trust in general availability of free provisions. Thus, every effort towards implementation of fair value based accounting according to the appropriate Standards of SFAS 157 and IFRS 13 will hardly lead to anything near the information ideal promised by the supporters of this concept. On the contrary, under realistic conditions “fair value is unknowable, because of the absence of the institutional reality on which the PVM [Fair Value Measurement] idea implicitly depends.”\(^4\) In practice, this fact converts fair value accounting provisions into amorphous guidelines, unworkable for preparers and incomprehensible to users. Problems do not only rest on the mysteries of forced pseudoestimates of the unknowable but also on strong tendencies towards a glossing over of facts - caused both by the personal interests of managers and preparers and by the interpretation of fair values as originating from “best use” of all assets.\(^5\) The following paradoxes and illusions give detailed evidence of fair value accountings’ fundamental shortcomings.

2  ใน รูป ถ้า ทำไม่ คือ ทำไม่ ถ้า แต่ ความ ถูก ถ้า แรก ถ้า ทำ ถ้า อะไร

Enthusiasm for the perfection of fair values in an ideal model world will turn into disillusion if accounting is regarded from the angle of its functions. A world of perfect markets and information obviously does not need any accounting to inform omniscient market participants.\(^6\) The same applies to the other functions too. Stewardship is superfluous in a world where all resources are used in their best possible ways anyhow. Perfect information of market participants prevents the necessity to impose restrictions on withdrawals of money for personal use since the information status of all others bars any losses from them. There will also hardly arise any problem to define and calculate bases of taxation which do not interfere into efficiency of capital allocation. Appropriate authority has just to choose and announce one; every-

\(^3\) Erb/Pelger \(2015\) pp. 24-25, 34; Barker/Schulte \(2017\) pp. 57-58.
\(^4\) Barker/Schulte \(2017\) p. 55.
\(^5\) SFAS 157.12, A4, A6, C36; IFRS 13.27, 131, BC98 C73.
\(^6\) Beaver/Demski \(1979\) p. 38.
body will instantly be aware of its amounts.

It is naïve to think that this paradox is irrelevant for practical fair value accounting. Its advocates trust in perfection of fair values even under real conditions. In their eyes “A quoted price in an active market provides the most reliable evidence of fair value.” Moreover they count on generally available “judgement” to adjust market prices that do not represent fair values and to ascertain veritable fair values from observable or even unobservable inputs to valuation techniques. To the extent that these assumptions are correct fair values will - according to the paradox - not broaden the knowledge. Since fair values are market specific, not entity specific, there can also be no advantage in knowledge for insiders. To the extent that quoted prices and judgement do not lead to fair values, on the other hand, the figures presented are incomprehensible and even dangerous. So, if fair values are actually unfair they will confuse instead of inform.

3 A FAIR VALUE PARADOX FOR THE ASSET AND LIABILITY VIEW

According to the asset and liability view fair value accounting is supposed to inform market participants by presenting a future oriented value of a business synthetically via balancing the fair values of all its assets and liabilities. In the regular case of a manufacturing business, however, one of the fundamental bases of valuation, the cash inflows induced by the business, can only be ascertained and approximately projected for the business as a whole. The reason is that production costs can be ascribed to the single inputs involved while revenues emerge from joint efforts only. The problem of distributing joint receipts among the factors enabling them - a stumbling block along the path to allow fair compensation - is well known to be insoluble. This implies that joint historical or estimated future cash flows cannot be distributed objectively among the productive inputs involved. It is even impossible to figure out all assets actually contributing to these joint cash flows. As a consequence,

7 SFAS 157.24; IFRS 13.77.
8 SFAS 157.21 D30; IFRS 13.72 C90.
9 SFAS 157.11, 14, A 5a, C32 B44; IFRS 13.2, 3, 89, BC174.
10 SFAS 157.6, A 7 C9; IFRS 13.4 and .11.
11 Benston et al. pp. 23 B4. SFAS 157 A 7 C9 simply assumes knowledge of asset specific fair values including partial group synergies.
there are no specific cash flow bases ascribable to individual assets or liabilities and, therefore, also no future cash flow based individual economic values. Hence, values and quantities of assets available to a business can only be assumed simultaneously. Especially with regard to synergies and intangibles, also, both kinds of information are inevitably subjective. Indeed, presenting the “fair” economic value of a business is difficult and presumably even impossible. The smoke screen of trying to hide these problems by, at cursory glance, simple values of assets and liabilities, however, does not contribute to a solution of the valuation problem. On the contrary, it adds considerably to the difficulties arising from and to the confusion brought about by this absurd procedure of splitting up total values in order to fake their synthetic determination.

Information by financial accounting has to focus on specifics of the reporting entity suitable for market participants forming their opinions on future profitability and value of this entity. This requires that the figures presented are trustworthy and accord to rules which are familiar to users. Anxious to develop such opinions, of course, market participants need additional information on subjects like competitive pressures, trends of markets, prices, wages and interest rates, national or even global economic situations and prospects e. g. Such information, however, is provided by particular sources. After all, market prices aggregate individual expectations of market participants which led to terms of an intended buy or sale and contributed to market pricing.

If financial accounting is based on such market prices only it will hardly be useful. This is valid whether we refer to the market price indicating the value of the entire company, the current price of its shares, or to market prices of the company’s assets and liabilities, not least because - as shown before - there are no values of assets and liabilities for a veritable synthetic valuation of a business. Financial accounting showing the value of the company exclusively by reference to the current share price cannot increase knowledge. On the contrary, it will deprive market participants of the admittedly imperfect information provided by traditional financial reporting.

Nevertheless, active market based share prices are prominent examples of fair values. This, of course, requires that markets have already been informed perfectly. Synthetic valuation of businesses, moreover, will run into severe problems if financial accounting has to be based exclusively on market prices. Depart from the fact that there are hardly any “fair” market prices for specialized and used assets employed in production, purely market based financial accounting of all companies will knock the bottom out of valuation inputs useful to deduce “fair” prices by judgement. Actually, informing markets by market prices only is like trying to fill up a bucket by pouring in water taken from this bucket. Moreover, since market price based accounting suppresses an at least to some extent informative predecessor, alternative sources for supplying the bucket with additional water are drained.

Advocates of fair value accounting believe in extensive similarities of reality and their ideal model (world). Unfortunately though, visions of efficient markets in "best use" equilibria arising from consensus views of all marketplace participants and expressed by efficient market prices are just illusions. First of all, consensus views of all market participants result in homogenous expectations of future profitability and value of any of the productive opportunities. This, of course, implies either identical valuation based prices or no need for transactions resulting in market prices. In order to maximize their values by risk reduction interests in businesses will be integrated in a market portfolio anyhow. Thus, it needs a mistake of a market participant to instantaneously trigger off market activity. But even under this condition market prices will show up for a short time only to return to equilibrium. As discussed before also, financial accounting for information purposes would be absolutely pointless in case of consensus views of all market participants which secure perfect assessments of values and best uses of all assets. On the contrary, information of market participants especially as far as future economic developments of reporting companies are concerned

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14 See footnote 5.
15 "characteristics that distinguish market participants generally", IFRS 13.23; SPAS 157.11, C32; SFAC 7.26.
16 SFAS 157.24; IFRS 13.77.
17 Sharpe 1970 pp. 77–103; IFRS 13BCS7 and 112.
has to be imperfect to justify information activity and financial reporting obligations. Indeed, instead of homogeneous perfection in every respect reality is marked by abundance of manifold kinds and combinations of imperfection in information qualities and volumes as well as in capabilities of forecasting future economic consequences and in fulfilling the tasks on the agenda of a business. Circumstances change both quickly and even fundamentally so that markets are at most on ways to equilibria but unable to ever really reach them. Progress in this respect requires effort of market participants investigating into the information available and improving their methods of analysis in contest with many competitors. It’s hard to beat the market, but this doesn’t imply market efficiency. John Paulsen - aware of the impending subprime crisis - had to wait for years, survive painful losses and employ new financial instruments until finally the ABX index fell to appropriate levels\textsuperscript{18}\textsuperscript{19}.

“Best use” of all productive assets is another illusion. Mergers and acquisitions, though often not successful, give evidence that assets employed in a business can find better utilization by changing the managing owner, the management or the environment by integrating companies into a group of businesses, changing the group or isolating them from their group in order to increase profitability. The wide spectra of success of businesses and mergers confirm a coexistence of different grades in management quality. As a consequence, best use based values of businesses according to fair value measurement visions are noxious rather than useful for investment decisions. Investments in shares or businesses aim at real opportunities instead of pure phantoms of optimality. As a consequence financial accounting has to present information suitable to deduce reasonable expectations of the economic future of actual businesses instead of fictitious ones. The same applies to fair values versus entity specific values in use\textsuperscript{20} and to market participant synergies\textsuperscript{21} versus entity specific synergy\textsuperscript{22}. As far as productive assets are concerned there are neither general and objective fair values nor universal market participant synergies. Actually, values of productive opportunities depend on their combination and management. Moreover, such combination values cannot be divided into separate values of the assets involved\textsuperscript{23}.

\textsuperscript{18} Zuckerman (2008)
\textsuperscript{19} SFAS 157 and IFRS 13 versus IAS 36.30 857 ; main differences IFRS 13D85.
\textsuperscript{20} SFAS 157A5.a, A8.a; IFRS 13B3 84 BC78 and 79.
\textsuperscript{21} IFRS 13.89, BC174.
\textsuperscript{22} See footnote 11.
\textsuperscript{23}
Synergies in the form of additional value emerging from asset combination or of major non-distributable goodwill in consolidated financial statements\textsuperscript{23} substantiate this phenomenon. Actually well-founded are just subjective values as limits the individual is prepared to pay or demand in exchange for an asset. Market prices are based on them.

Newfangled fair value accounting believes fervently in market efficiency. This, however, contradicts the acknowledgements that active markets actually exist for selected assets only and that market prices are not always efficient\textsuperscript{24}. The gap between the two conflicting positions is filled by the illusion of omnipotent judgement. Professional judgement is expected to distinguish between fair market prices and those which are not, to adjust defective prices and to deduce fair values from observable \textsuperscript{\textdagger} level 2 \textsuperscript{\textdagger} or even unobservable \textsuperscript{\textdagger} level 3 \textsuperscript{\textdagger} inputs by valuation techniques used to measure fair values\textsuperscript{25}.

Fair values as “quoted prices \textsuperscript{\textdagger} in adjusted \textsuperscript{\textdagger} in active markets for identical assets or liabilities that the entity can access at the measurement date\textsuperscript{26} \textsuperscript{\textdagger} \textsuperscript{\textdagger} level 1 \textsuperscript{\textdagger} \textsuperscript{\textdagger} \textsuperscript{\textdagger} \textsuperscript{\textdagger} \textsuperscript{\textdagger} can hardly be found. Even most actively traded financial instruments lack of fair prices\textsuperscript{27}. Thus, fair value measurement is actually forced to find exit prices in a hypothetical and orderly exchange transaction\textsuperscript{28}. Backing of this task by SFAS 157 and IFRS 13 is thin\textsuperscript{29} mainly because the few definite provisions are out of touch with reality. In a world of imperfection phantoms like “the” assumptions of market participants, general “best use” values and market participant synergies are just empty talk. The ability to identify not only prices which are unfair but also their missing “fair” counterparts is precious. John Paulson made billions on this kind of knowledge in a case of observable prices during the global financial crisis which even according to IFRS 13BC151 were not representative of fair value. Such kinds of information are

\begin{thebibliography}{9}
\bibitem{23} Kütting \textsuperscript{2007} pp. 223\textsuperscript{228}.
\bibitem{24} SFAS 157.26; IFRS 13.79, B37 Г, BC151.
\bibitem{25} SFAS 157.26 Г/1; IFRS 13.59 Г75, .79 Г/0, B5 Г/0, BC139 Г/48.
\bibitem{26} IFRS 13.76; similar SFAS 157.24.
\bibitem{27} Shleifer \textsuperscript{2000} pp. 28 Г2 based on a comparison of share prices of Royal Dutch and Shell.
\bibitem{28} SFAS 157.5. Г7 and A2; IFRS 13BC30 and 42.
\bibitem{29} SFAS 157CS4.
\end{thebibliography}
"the" basis of speculation and will not simply be conveyed to the public. To assume their general availability is synonymous with universal price efficiency. The valuation techniques offered by the Standards - market, cost, and income approach\(^{30}\) - do not transmit any news. They either refer to markets again decisive for a sale, purchase or reconstruction of assets or to present value techniques and option pricing. The problems of finding out necessarily future oriented valuation inputs to such techniques, however, are insoluble - especially for single productive assets without active markets.

Nevertheless, SFAS 157 and IFRS 13 give the impression of a simple solution. In most cases multiple valuation techniques are regarded as appropriate. Their results "shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances\(^{30}\)." This concept, however, takes the knowledge of fair values for granted in order to find reasonable ranges of values and the points most representative of fair value. Sadly, mankind is not like legendary Baron von Münchhausen with his capability to pull himself out of the quagmire by the mop of his hair. Again, fair value measurement turns out to be soluble in a world of perfect information only where such values are of no additional use.

In fact, impracticability of fair value measurement has serious consequences. "Fair value is what you want the value to be. Pick a number\(^{30}\)." Indeed, fair valuation leads to latitude in dimensions which are unknown up to now\(^{33}\). Empirical case studies give evidence of this. Latitude of such enormous volume, of course, is noxious to information especially because it is not used to the best of one's knowledge and belief but rather driven by personal prejudice and interest\(^{34}\). Management must be convinced of the soundness and profitability of its decisions. This positive bias will be enhanced considerably by shareholder value and profit oriented compensation. Applied to biological assets like farmed salmons or apple trees fair valuation has to refer to estimation of asset specific future cash flows\(^{30}\). Such estimates are especially risky since fair valuation results in day one profits. As bases of performance oriented remunera-

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30 SFAS 157.18; IFRS 13.62 and B5.30.
33 Ernst&Young 2005 p. 5; Barker/Schulte 2017 p. 62.
34 Benston et al. 2003 pp. 15, 22 and 28.
35 Pricewaterhouse Coopers 2010 p. 32.55.2 and 32.55.4 Example 2.
tion these profits will exclusively benefit investment initiators. This again will induce risk of oversizing all investments, the supply of resulting products and - in the end - day one profits. Subprime disaster, also, did not only result from initial teaser interest rates, value appreciation based credits for consumption\textsuperscript{36} and missing personal liability in case of falling property prices which attracts speculators\textsuperscript{39,0} to play a “heads I win, tails You lose” game. Judgement based fair value measurement played an important part too. In one exemplary deal, for instance, mysterious 91.9\% AAA-rated ABS CDOs extracted from RMBS with just 81\% AAA-rated tranches via clever rearrangements were accompanied by excessive glossing over judgement based fair values of not marketable subordinate tranches and resulted in day one profits\textsuperscript{39,3}. As a consequence fair value based accounting has proved to be detrimental to capital allocation not only by poor information especially on background and risk of subprime mortgage based securities but also by - as far as allocation is concerned - leading to noxious bases of management incentives. Enron failure taught similar lessons\textsuperscript{39,3}.

Not least, judgement based fair value accounting undermines both relevance and reliability of financial accounting. Nobody is provided with knowledge suitable to clearly identify fair values via professional judgement. Fair value accounting, therefore, is inevitably dependent on efficient market prices - which hardly exist - and on personal courage to take responsibility for choices of values to be fair though nobody knows weather this is true or not. This is of concern for preparers but also for auditors and enforcement institutions\textsuperscript{39,3}. Their duty to check the values and certify their accordance with appropriate accounting standards converts into the dilemma of confronting one problematic judgement with another\textsuperscript{41,2}. Dubious judgements of auditors or enforcement institutions, however, are not enough to confirm or qualify opinions on fair values. Disclosure of additional manifestations of judgement will probably increase confusion. Thus, unable to throw reliable light on the figures presented auditing and enforcement of fair valuation are not worth the money spent on it. Moreover, audits which have to be based on insecure judgement will often turn out to be errone-

\textsuperscript{39} Benston et al. (2003) pp. 8, 24, 27 128, 38 11 and 51.
\textsuperscript{40} Barker/Schulte (2017) p. 64.
ous. This and the probable competition for lax auditors - hardly discernible by outsiders - will ruin the auditing job.

According to the economic theory of capital and income perfect measures of wealth, like fair values in the eyes of their adherents, are accompanied by excellent indicators of profit. Thus, by presenting all changes in net assets comprehensive income is expected to be particularly useful to “properly assess the prospects for future cash flows”\textsuperscript{42}. Unfortunately, there are several conclusive reasons against this supposition. Some of them go back to the insoluble problems of fair value measurement. Others result from conceptual inconsistencies.

The difference in the synthetic fair value of an enterprise at the end of a period compared to that at the beginning represents just one of several kinds of economic profits provided that all fair values have been determined correctly. As we know now, an abundance of problems insoluble in practice and concerning both valuation at all three measurement levels and recognition of assets, especially intangibles, preclude this. Moreover, even moderate errors in fair valuation of total assets will lead to enormous distortion of net assets and profits in particular. Large variety in volume of distortion, unattainable consistency and changes in economic conditions aggravate the situation. In fact, confusing alteration in distortion arises from changing imperfections inherent in actually inefficient market prices or valuation inputs, from updated knowledge, varying judgements on future cash flows, interest rates and risk premiums and from variable individual goals with regard to balance sheet management. Gigantic, varying and impenetrable distortions, therefore, deprive fair value based comprehensive income of information capabilities like those expected from economic profits.

Also, the concept of comprehensive income combining a risk appropriate yield with unexpected capital gains or losses is a dubious basis for deductions of future profitability or cash flow. There was intensive discussion on different kinds of economic profits in a world of uncertainty\textsuperscript{43}. If such a profit is destined to support estimations of future profits or cash flows inclusion of accidental capital gains is noxious:

\textsuperscript{42} IASB \textsuperscript{2010b} OB15; Ernst & Young \textsuperscript{2006} p. 2.
\textsuperscript{43} Schildbach \textsuperscript{2015} pp. 150-169.
"Earnings are uninformative about future earnings and about value; earnings are changes in value and as such do not predict future value changes, nor do they inform about value. Value 'follows a random walk' as it is said in 3. Thus, economic profit for a period based on expected future cash flows according to the information at the end of this period and free of any capital gains by chance would be the conceptual ideal - if we were able to determine such future oriented profits.

Yet, there are other conceptual inconsistencies of comprehensive income. According to SFAS and IFRS, accounting for equity settled share based payment requires that the fair value of this "payment" is treated as an expense in the income statement. Of course, price gains from real stock options enrich managers in a similar way waiters increase their incomes by tips. In both cases, however, the additional incomes do not debit the employing enterprises, because such incomes do not reduce their cash or fortunes at any time. Instead, these incomes are provided by the shareholders sharing the benefits of possible future price enhancements with the managers or, respectively, by the guests paying the tip. But shareholders' or guests' expenses may not be included in non affected enterprises' income statements! Finally, combination of fair valuation with revaluation and entering the differences either in profit or loss, in other comprehensive income or directly in retained earnings revaluation reserve is not only confusing but also extending preparer latitudes.

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8 An investigation into fair value measurement of non-financial assets by big publicly listed companies based on semi structured interviews of senior personal responsible for group financial accounting according to IFRS revealed major problems. While level 1 inputs were almost unavailable, the few level 2 inputs had to be founded on entity specific instead of purely fictitious market participants' perspec-

46 SFAS 123.16 22; IFRS 2.8 and 12.
47 IAS 16.31 and 11; IFRS 9, 5.4.1 and 5.4.4.
49 Ibid. pp. 61 62.
tives\(^{50}\). Multitudes both of appropriate valuation techniques and of differences between the assets to be valued and those available for comparison resulted in enormous differences ranging for example from 29.9 to 179 million \(^{51}\). The betas offered to the public allowed to “get pretty much any value within a certain area by simply changing the parameters on the Bloomberg engine\(^{52}\).” Knowledge that “we are able to influence the result dramatically just by minimally changing one of the more important, and less audible input values\(^{53}\)” however, was accompanied with awareness of long term dangers imminent in a world of change. Unwilling to take responsibility management often tried to delegate fair valuation to others - their auditor, Bloomberg or Standard and Poor\(s\)^{54}. Forced to speculate on future cash flows “all entities were building castles on the sand” leading to a situation in which “financial statement users do not understand how the fair values are calculated\(^{55}\).”

In 2006 PwC interviewed more than 50 accounting and finance specialists or senior portfolio managers from US and European Financial Centres. They are interested in the income statement showing “investment returns generated by management as they convert the inputs of production into revenue\(^{56}\)” but not in fundamentally new measurement bases for assets and liabilities. In their eyes enterprises also have to be valued unitarily by investors and not synthetically by accountants or managers. Apart from liquid financial assets current values are regarded with misgiving about difficulties and costs of “fair” valuation, questionable relevance and fear that inexact managements’ estimates together with necessarily vague updates will mask operating performance\(^{57}\). Additional information on cash flows, on cash invested in R&D and on pension liabilities is regarded as useful while the opposite goes for separating goodwill into different components\(^{58}\). Anyway, “Investors do not want the accountants valuing companies for them. That’s what investors do\(^{59}\).”

50 Ibid, pp. 55 and 62 [55].
51 Ibid, p. 62.
52 Ibid.
53 Ibid, p. 64.
54 Ibid, p. 63.
55 Ibid, p. 65.
57 Ibid, p. 6.
58 Ibid, p. 5, 7 and 11.
As mentioned before, auditing and enforcement run into severe trouble due to the obscure recognition and valuation provisions of full fair value accounting. Moreover, these problems show up quite often. Actually, 61% of all objections by the main German enforcement institution DPR in the years 2008 to 2010 referred to fair valuation. Yet, with 75% of all objections by DPR founded on well-defined violations, 25% on sound judgement and barely any on varying opinions, reproaches induced by fair valuation cannot be founded mostly on differences in estimation. Objections, instead, centred on lack of goodwill impairments in times of economic downturn and on the omission of purchase price allocations to trademarks or customer lists e. g. These objections look well defined, but actually they impose unworkable duties. Fair valuation of goodwill requires knowledge of entire businesses’ values while purchase price allocation fakes solutions to insoluble problems - allocation of synergies to tangible and intangible assets, a sheer waste of time and money. Substance over form is turned upside down.

9 会計の矛盾とその解決のための新しい方法論

Accounting practice will hardly benefit from some sophisticated implications of assumed perfection distinguishing an ideal world from decisive reality. Indeed, economic decisions are exclusively concerned with future developments. Lack of economic laws in natural sciences’ quality, however, refuses both markets to be fully efficient and accountants to depict future oriented profits or values of businesses. Mortality is restricted to deduce inevitably imperfect and subjective expectations of economic developments of a business from experiences in the past. Subjectivity and imperfection of such expectations urge a division of duties. Formation of relevant expectations has to be left to those who bear chances and risks - the analysts and investors. In absence of any well-founded bases for prognoses accounting can only support users by mainly reliable information on recent achievements of the reporting business in producing and selling its products profitably. Manifold conflicting interests and need for evidence in

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60 DPR 2011 Bild 8.
61 Berger 2008 p. 510.
62 DPR 2011 pp. 6ff.
63 Pricewaterhouse Coopers 2007 p. 11.
64 Penman 2009 p. 2.
judicial inquiry make documentation by bookkeeping indispensable. Accrual accounting complements verifiable historical cost and realization by necessary expectations of future developments as far as depreciation or provisions e. g. are concerned in order to arrive at, of course, imprecise indicators of periodical performance. Though imperfect, many empirical studies show that markets react sensitively to traditional financial statements’ information indicating that it is taken seriously. Cash flow statements predominantly according to the indirect method reconcile net income to net cash provided by operating activities supplemented by net cash from investing and from financing activities. In combination with notes, Investor Relations and information from other sources on myriads of factors influencing the future development of the reporting business, however, traditional accounting figures do serve the investors. Prudence by realizing profits at the moment of sale, moreover, accords with efforts to avoid noxious incentives like those from day one profits. Secrecy of significant information on current research and development, though, has to be protected in order to enable investment in technological progress.

Inevitable imperfection of traditional accounting, however, does not bar efforts towards reform. Accounting is generally confronted with creative efforts to dress up the figures presented: “let’s beat Statement No. 13’ is one of the most popular games in town.” Such endeavour has to be watched carefully to narrow down misleading impact of it. Substantial latitudes may be mitigated either by definite rules systematic depreciation instead of impairment tests for goodwill e. g. or by additional and referenced notes on the accounting method applied. Progress in one aspect, though, is regularly payed for by a drawback in another. Financial accounting, also, concerns many groups. Accounting provisions, therefore, may not be determined exclusively by the accounting profession acting mainly in managements’ interest. Especially accounting for information is of vital importance for users too. So, equality for both sides will probably serve capital allocation best. Problems and solutions have to be discussed publicly, of course, particularly in academic circles, in order to reveal probable consequences. In absence of definitely optimal solutions benefit for some persons affected, again, will normally be harmful for others. “Improvement”, therefore, will

66 Beaver 1998 p. 89 120.
68 Metcalf et al. 1977 p. 112 120; Hopwood 1990 pp. 80, 83 and 87; Walton 1993 pp. 54 55.
mainly be a matter of evaluation and opinion\textsuperscript{66}. In a constitutional democracy provisions concerning both the welfare of the citizens and their conflicting interests are up to parliaments, governments or courts of justice.

Evidence in history of accounting arouses suspicion - especially with regard to “Gründungsschwindel” in Germany of the 1870s, Great Depression in the early 1930s, dot com bubble, crash of IFRS oriented “Neuer Markt” in 2000, World Com, Enron and Subprime crisis. In all cases accounting practices available to preparers and professional accountants have proved to offer disastrous latitudes which had to be restricted by government intervention. Change to full fair value accounting strived for by a globalized accounting profession in accord with new tangled economic theory will probably open a veritable Pandora’s Box if it is not warded off.

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