地域分析
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資料

R.N.アンソニー教授からの手紙
— 企業主体論と資金会計論の連携 —

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I はじめに

ここに資料として紹介するのは、ハーバード大学のロバート・N・アンソニー教授（当時は名誉教授）からいただいた1988年4月30日付と5月2日消印の2通の手紙【資料1】と、その手紙に関連する資料である。

この関連資料は2つあって、【資料2】が、1988年4月4日に、大阪のホテルニューオータニのロビーで、筆者がアンソニー教授と会見した時の意見交換に用いた資料である。そして【資料3】が、4月30日付の手紙で言及されている筆者の英文草稿である。

もう30年前のことになるが、来日中のアンソニー教授と大阪で会見する栄誉を得た。その経緯は次のようになる。

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いた。そこで、そのコンサルティング会社に電話して、急遽、面会を設定して
いただいた。その指定された日時と場所に関しては、電話のメモ書きと会見の
記憶から、1988年4月4日、大阪城近くのホテルニューオータニのロビー、
午後1時から3時、ということであった。

少し早目に到着して、吹き抜けのロビーの2階のテラスから下を見渡すと、
アンソニー教授はすでに来ておられた。1時前になると、夫人らしき長身で細
身の女性が席を離れ、それが合図になって筆者がその席に向った。アンソニー
教授は当時72歳で、長身で俳優のキャリー・グラントに似た風貌だった。

【資料2】にもとづいて2時間ほど質疑を交わし、終わりごろに、【資料3】
をお見せした。「これはロイド（筆者が留学していたワシントン大学のロイド・
ヒース教授のこと）に見せたのか」と尋ねられ、「読んでおこう」と約束して
くれた。4月30日付の手紙がその待ちに待った返事だった。

忘れられない個人的な貴重な想い出として、その会見を心に留めて、その後
いただいた手紙は大切に保管していた。ところが、最近になって読み返してみ
ると、そこで交わされた手紙や資料は、会計学の発展にとって重要な内容が含
まれていることに気づいた。そこで、それらをここに資料として公開して、ご
く簡潔に解説を加えておくことにする。また併せて、アンソニー教授のプロフ
ィールについても、ここで併せて紹介させていただく。

1988年3月3日付でいただいた序文は、佐藤倫正訳『アンソニー財務会計
論』（白桃書房、1989年）に収録されている。それに始まって同年5月2日の
手紙までの2か月間に、会計学の二つの重要領域である「企業主体論」と「資
金会計論」の間の相互承認があったことが明らかになるろう。

II アンソニー教授のプロフィール

アンソニー教授が亡くなったのは2006年12月1日
だった。同年1月18日のニューヨークタイムズに追悼
記事が載った。そこで強調された教授の業績は「会計教
育への貢献」であった。しかし、これには違和感を持っ
た。確かに、教授は生涯27冊の著書を著し、その中の多
くのテキストは、わかり易さで定評があり、ベストセラ
ーになって、教授は「世界一リッチな会計学者」だったかも知れない。
その後も、アンソニー教授の生前の業績はいくつか紹介されたが、研究の関心が、組織論、管理会計、非営利会計、財務会計と多岐にわたっており、管理会計の業績に対する紹介が多い。しかし私見では、とくに財務会計の業績については、単に「原価主義者」という紹介もあり、誤解を招きかねないのが気になっている。それらの評価は教授の多方面にわたる業績の一面に過ぎない。

「原価主義者」という位置づけは、ほとんど「フェイク」である。少なくとも「厳格な原価主義者」としないと誤解を招くだろう。現行会計で認めていない「持主資本利子を費用として製品原価に算入せよ」というのが教授の立場である。これが「企業それ自体」の立場で会計をおこなう「企業主体論」の主張になっていく。

ただし、ベストセラーのアンソニー教授のテキストでは「企業主体論」は強調されていない。本格的な「企業主体論」は、教授がハーバード大を退職された翌年に出版された。このことがアンソニー教授の「企業主体論」がこれまで広まらなかった一因ではないかと思われる。

1. 共生の会計モデル

アンソニー教授の最も重要な貢献は「企業主体論」である。これは米国のメディア経由の紹介では現れない。この主張は、株主の利益に上限を設けるので、株主以外のスティークホルダーに配慮する会計モデルであるが、それは米国の株主資本主義を根本から揺さぶるからである。

株主資本主義は、株主利益の最大化を前提にした経済モデルにもとづいているだろうが、昨今は多くの矛盾が露呈しているように見える（これについては佐藤[2017]を参照いただければ幸いである）。

これらのことを 2014 年 2 月の『税務経理』で次のように要約しておいた。

アンソニーの戦争と平和

ロバート・アンソニー（1916～2006）は、アメリカ東部のマサチューセッツ州に誕生した。メイフラワー号でイギリスから渡ってきたピューリターン（清教徒）の家系だという。つまりプロテスタントである。

1938 年に東海岸のメイン州にある名門コルビーユ大学を卒業したあと、
ハーバード大学大学院に進み、会計と管理統制論を専攻した。1940年にMBAを取得して、同大学の助手に採用され、研究者としての道を歩み始めた。ところが、この若くて有能な会計学者は、アメリカの戦時体制への協力を求められ、3つの戦争を通して、軍の会計情報システムの近代化に貢献していくことになる。

1941年に第2次大戦が始まり、アンソニーは海軍に入る。グアム島で日本に侵攻する艦船の物資補給にたずさわり、1946年に復職する。1950年に朝鮮動乱が始まり、今度は空軍の求めて近代的会計システムの導入に従事する。1965年には、ベトナム戦争のさいにケネディ大統領のもとで国防長官になったロバート・マクナマラに顧われて、国防省の首席財務管理官に就任して、国防省に新しい原価計算システムを導入した。じつは、この3人は同世代で、ハーバード大学と海軍で繋がっている。

1968年、マクナマラが国防長官を退いたのを機に、アンソニーもハーバードに復帰した。アンソニーによくやく平和が訪れた。ここから、軍事を離れた会計の分野で数々の成果を上げて、1982年に退職し名誉教授となる。

その翌年の1983年と1984年に出版したのが『アンソニー財務会計論一将来の方向一』（佐藤倫正訳、白桃書房1989年）であった。そこで提唱された会計には、資本主義社会を競争から共生に変える精神が植え込まれていた。

現行会計は株主利益の最大化を許容するモデルである。これに対しアンソニーは、企業がある程度の利益で満足すると仮定し、それを超えた利益は株主のものでなく、企業そのものに帰属すると考える。共生の会計モデルである。

国防省に兵器を納入する企業が利益の最大化をめざすと、平和は遠い。税金を払う国民は納得しないだろう。利益の最大化を目指さないというのは、プロテスタントの倫理から出た「資本主義の精神」と一致している。アンソニーの経歴が彼の会計思想に反映されている。

佐藤倫正「アンソニーの戦争と平和」
『税務経理』第9324号（2014年2月14日）
2. 主流派経済学との論争

アンソニー教授の遺産はハーバード大に寄付され、彼と同じ経歴、すなわち海軍を除隊してハーバード大の MBA に進む学生二人に与えられる奨学金が創設された。また、教授の長年の教育研究の足跡を辿れるよう、貴重な資料や手紙がベイカー・ライブラリーに寄贈された。

そのことを 2012 年に知って、2014 年の春に思い立ってベイカー・ライブラリーを訪れた。そこで、これまで見落としていた重要論文 Anthony[1960]を発見した。

その論文は「利益最大化の問題点」というタイトルで、最近話題になってい る「行動経済学」の立場から、主流派の経済学を批判した。とくにポール・サ ミュエルソンのテキストが格差容認の記述をしていたのを「倫理的でない」と激しく批判していた。その時訪問記を次のように記録していただいた。

アンソニー教授の贈りもの

ハーバード大学経営大学院（HBS）のロバート・アンソニー教授（1916－2006）が追い求めた会計思想の形成過程を示す貴重資料が、HBS のベイカー・ライブラリーに保管されている。項目と年代で分類整理されたファイルを収めた箱は 90 を超える。その箱を、この（2014 年）3 月 10 日か ら 5 日間通って、開けさせていただいた。

佐藤一郎「言文晩録」にあるとおり（第 60 条）、少にして学んで壮にしてし て為し、壮にして学んで老にして気は衰えず、老にしても学んだアンソニ ーは、「則ち死して朽ちず」となった。

アンソニーは 1960 年に重要な論文を書いた。当時の経済学のベストセ ラーが「利益の最大化」という概念を中心に書かれていることに疑問をも って、それは「現実的でない」し「倫理的でない」と批判した。そして、 正しい企業目標は「満足できるほどの利益」であると主張した。

論争の相手は、なんと、あのポール・サミュエルソン（1915－2009）であ った。ボストンを流れるチャールズ川をはさんで、HBS の会計学と MIT（マ
サチューセッツ工科大学）の経済学が対峙することになった。

企業は株主のもので、それが株主利益の最大化をめざすというモデルは、分かりやすく説得力がある。株主資本主義のアメリカでは、こちらの受けが良かったであろう。しかし「真理」ではないとアソコーニは考えた。そして 1983 年と 84 年に、彼の構想する会計の体系を一組の概念フレームワークとして著した（佐藤倫正訳『アソコーニ財務会計論』、白桃書房、1989 年）。この会計モデルによって、企業の「満足できるほどの利益」が可視化される。

両者の違いは、残余利益の帰属先にある。残余利益は株主資本のコストを回収した余剰である。アソコーニの立場では、それは株主ではなく企業に帰属する。これに対し、利益最大化の立場では、それもまた株主に帰属する。1990 年代に日本にやってきた EVA（経済的付加価値）は、この利益最大化モデルである。

最近になって、株主利益の最大化を追求するアメリカが「貧困大国」になっていると指摘されるようになった。それを日本が追いかける必要はないだろう。アソコーニ教授の贈りものがあり、混乱を深める資本主義の出口を示す処方箋になるかも知れない。それは「結果としての利益」をめざした日本資本主義の精神ともマッチしている。

佐藤倫正「アソコーニ教授の贈りもの」
『税務経理』第 9340 号（2014 年 4 月 18 日）

その立場は、1984 年の著書でも言及していって、そこではフリードマンの名を挙げて注意を提起している。少し長いが、その部分の引用を示しておこう。

「不幸なことに、経済学者の間では、経済主体の性格について意見は一致していない。この学科の状態に関する一般的な兆候として次の事実を考えてみなければたい。ノーベル賞は 1976 年にフリードマン（Milton Friedman）に授与された。彼は経済主体の性格についてひとつの見解を持った経済学者である。そして 1978 年にはサイモン（Herbert Simon）に授与された。彼はそれと正反対の見方を持った経済学者である。フリードマンは純粋かつ完全な競争と利益最大化（profit maximization）の目標の仮定の上に構築されたモデルを記述する。サイモンは異なったモデルを
記述すると、それは満足のゆく利益（satisfactory profit）の目標にもとづいたモデルであり、そして、彼はフリードマンのモデルは非現実的だと論じる。

他のどの領域でも、新しいモデルが従来のものよりも優れていることが新しい証拠によって学者間で納得されていないならば、現状認識についてかくも対立する二つの立場に対してノーベル賞を与えられないであろう。サイモンのモデルはフリードマンのモデル（これは1776年のアダム・スミスに根ざしている）より新しいが、経済学者たちは、サイモンのモデルの方がより優れているかどうかに関して意見の一致を見ていないのである。

（訳書26-27頁、原著20頁）

また別の箇所で次のようにも述べている。

「サイモン（Herbert A. Simon）は、ノーベル経済学賞受賞に際しての講演で、利益最大化の前提に対する強い反対論を展開した。それを要約して彼は次のように言った。

それでは古典的な企業の理論の現状はどうであろうか。この理論のミクロ的仮定、すなわち完全合理性の仮定が事実に反していることは、もはや疑う余地がない。それは概算の問題ではない。それらは、複雑な状況での人間の意思決定プロセスについてわずかにさえ述べていないのである。

サイモンはこの結論に対して二つの根拠を示している。第一は、経営者が利益を最大化するのに必要な合理的意思決定のタイプについて十分には知り得ないということ、とくに、需要曲線のカーブの形は、大まかにさえも、ほとんど見積ることができない。第二に、組織における人々の活動について入手可能な証拠は利益最大化の前提と一致しないことである。

これらに対して私は第三の点をつけ加えたい。すなわち、利益を最大化しようとするある種の意思決定は非倫理的であり、大多数の経営者は非倫理的な意思決定はしないだろう、ということである。たとえば、腎臓透析器の最初のモデルにつけられた価格は、高くはあったが、この機械がなければ重症の患者は助からないことを考慮して価格が取り上げられた、といったことはまったくなかった。」

（訳書40-41頁、原著30-31頁）
### 解 説

以上より、アンソニー教授のプロフィールとともに、教授の主張の概要がおよそ明らかになったと思う。そこで、以下、アンソニー教授との会見にかかわる資料を簡潔に紹介させていただく。

### 1．2通の書簡

(1) 1988年4月30日付の手紙

この手紙は予期しなかった嬉しい内容であった。教授は私の資金会計論を受け入れて「とても輝いている（especially illuminating）として」、Accounting Horizon誌に投稿するよう促してくれた。

これは創刊間もない米国会計学会（AAA）の二つ目の機關誌で、第1巻第4号（1987年12月号）の裏表紙を破いて同封して、私に編集方針を示してくれた。その裏表紙にはアンソニー教授宛の住所のラベルが貼ってある。私にとっては「お宝」である。

この手紙の中に「バイアス（bias）」という用語がある。当初は、「自著を翻訳しているのでひいき目に見ているかもしれない」とくらいに詰めていたのだが、2017年ノーベル経済学賞で注目を集めた「行動経済学」で使われる用語でもある。これは先に引用したようにアンソニー学説を特徴づけている用語でもあり、今この瞬間に重きを置く「現実性バイアス」のことだろう。教授は敢えて意図的に文面にこの用語を入れたとも考えられる。

また、アンソニー教授は私の提案する「資金法」の損益計算を認めてくれた上で、「それは売上総利益や販管費などは表示できないだろう」と「資金法」の限界も指摘してくれた。これに関しては、それを示す資金法も工夫することができると考えている。

(2) 1988年5月2日付の手紙

2通目の手紙は、行き違いになった私からの礼状への返信であったためか、1通目との間隔が短くなっている。文面に日付がないが封筒の消印に5月2日の日付がある。

そこで、W. J. バッター教授への敬意を示した上で、彼の「管理会計論」
R.N. アンソニー教授からの手紙 — 企業主体論と資金会計論の連携 —

を、教授が編纂する Irwin のテキストシリーズに加えたが（あまり売れなかった）と書いている。これは筆者も読んでいた「資金会計論」で有名なパッターの Vatter[1970]のことである。まさに、「企業主体論」と「資金主体論」の接合可能性を示している貴重な資料であると思われる。

さらに、教授が貢献した非営利会計についても言及して、政府会計の基金（Fund）の数を減らすことに努力した、と書かれている。

2. 打ち合わせ資料

この資料は A〜D の 4 つのグループの質問からなっている。A は誤植の確認で、B は用語の確認であった。C は文章の確認で 5 項目ある。D は FASB の概念フレームワークからみの質問であった。これらの質問によって、いくつか重要なことが判明した。

この資料で示された意見交換は、次の意味で会計学研究にとって重要性をもっていると考えられる。それは、アンソニー教授が推し進めた「企業主体論」と筆者が考察してきた「資金会計論」という二つの主要な学説の流れが相互に受容できることを確認したことになるからである。

すなわち、次図に見られるような、企業主体説（E 説）と資金会計論の三元複式簿記（3DAS）を結びつける「共益三元簿記」構想の原点は、この打ち合わせ資料にあたったとも考えられる。

![図示](image)

3. 英文草稿

アンソニー教授に認められた筆者の英文稿は、現在、岡山大学経済学部の英文ワーキングペーパーシリーズの 1－4 として同資料室に保管されている。
それをコピーして、ここに公開させていただく。アンソニー教授とお会いする時も、それをコピーして持参した。

これは、一橋大学博士課程の単位取得論文『米国における資金的会計観の軌跡』をもとにした、ブルライト留学の成果であり、1983年10月にオレゴン大学が主催したAAAの北西部会で報告され配布された。禁帶出となっており、これまで人目にあまり触れることはなかったと思われる。


何故、アンソニー教授の強い薦めがあったにもかかわらず、Accounting Horizon誌に投稿しなかったのか。やはり、「行動経済学」が説くように、人間は不合理な存在だと思う。人間の持つ情報は完全でなく、認知能力にも限界があるので、「行動経済学」によれば、人間は効用（満足）を最大化するのでなく、せいぜい満足化に甘んじる。

当時はアンソニー教授に認められただけで十分であったのと、投稿すれば、アンソニー教授ご自身か、ロイド・ヒース教授に査読の労を負わせたかったのかも知れない。

この英文草稿は、注15でアンソニー教授の管理会計のテキストであるAnthony[1970]に示された貸借対照表観を「資金観」としている。つまり、貸借対照表を「資金の運用＝資金の源泉」と捉えている。そして、そこから「外部資金源にはコストが発生する」という企業主体説が導かれるのである。

しかし、このような会計思考は、FASBの1976年『議論資料』では、主要な会計観ではない「第三の会計観」として仲間外れにされる。当時の米国では株主中心の資本主義（P説）が当然と考えられていて、貸借対照表と損益計算書の二つが主要財務諸表だったので、「収益費用観（RE観）」と「資産負債観（AL観）」の対立に注目が集まっていた。そのことは、次の「会計理論の展開図」を眺めると理解されやすいと思う。
ところが、上図の右側の企業主体論と資金会計論（資金主体論：現金理論）は、IASB と FASB の 2004 年以降の新概念フレームワークプロジェクトで別々に検討されたが、やがて出会うことになり、実質的に 2010 年の『財務報告の目的』で「21 世紀の会計ヴィジョン」として結合されることになる（IASB[2010]）。

しかし、今にして思えば、両会計理論の親和性は、ここで取り上げた【資料】によって明らかになっていたことであった。その後 2008 年に、IASB の新概念フレームワークの「公開草案」に対して、筆者は企業主体論を支持するコメントトレターを送ることになるのだが、その背中を押してくれたのが、この【資料】であった。

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A Survey of Accounting

Ronald J. Huefner
S.U.N.Y. at Buffalo and
Robert P. Derstine
Villanova University
1988, 700 pages

This book presents all the major topics of first year financial and managerial accounting—in a finely-tuned balance between procedures, statements and their uses, and current issues. The authors use a corporate approach throughout and cover the most timely topics including the new cash flow statement, 1986 tax reform, inflation accounting and international aspects of accounting. Special computer applications are noted and a complete supplements package supports the text.

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Jack L. Smith, Robert M. Keith, and William L. Stephens,
all of the University of South Florida
1988, 768 pages

Managerial Accounting
Also by the successful Smith-Keith-Stephens team
1988, 720 pages

EDP Auditing: Conceptual Foundations and Practices, 2/e
Ron Weber, University of Queensland
1988, 976 pages

Highly successful in previous editions, this comprehensive text covers advanced accounting topics including consolidations, partnerships, governmental and nonprofit accounting, and foreign currency accounting. The new edition focuses on the growing importance of accounting in non business organizations, the latest FASB and GASB pronouncements, unfriendly takeovers, limited partnerships and joint venture accounting. An extensive supplements package complements the text.

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December 1987

ROBERT N ANTHONY
PO BOX 4
WATERVILLE VALLEY NH 03223-5004
April 30, 1988

Prof. Michimasa Satoh
University of Okayama
1-7-29-7, Tushima Minami
Okayama shi, Okayama
700 JAPAN

Dear Professor Satoh:

I have read your paper, "Funds Flow View of Financial Accounting" with much interest. Perhaps because of my own bias, I found it especially illuminating.

The draft you gave me was dated October 1983. If you haven't had it published, I urge you to submit it. One possibility is Accounting Horizons, a new publication of the American Accounting Association. I am enclosing a statement of its requirements. The problem with getting acceptance there is that the Editor has received more cash flow manuscripts than he wants. None of them are quite like yours, however; most relate to the new cash flow statement required in the United States. In submitting the manuscript, you might differentiate yours in the covering letter.

I would appreciate your comment on one point. You say, and I agree, that the asset/liability approach is deficient. As between the funds flow approach and the revenue/expense approach, I don't see much difference, in terms either of the resulting balance sheet or the resulting income statement. In particular, the net income would seem to be exactly the same in either approach. The revenue/expense approach permits the reporting of an accrual gross margin, which I think is a useful number, and also selling, general and administrative expense; the funds flow approach would not permit this, if I understand it.

Good luck on the translation.

Sincerely,

[Signature]

Robert N. Anthony
P.O. Box 4 • Waterville Valley, New Hampshire 03228
Prof. Michimasa Satoh
1-7-29-7, Tsushima Minami
Okayama shi, Okayama
700 JAPAN

Dear Professor Satoh:

This responds to the query about Vatter's "Fund Theory" in your letter of April 29.

I have great respect for Bill Vatter, and indeed accepted his text on management accounting in my accounting series for Richard D. Irwin. (Although I thought it was an excellent book, unfortunately the market disagreed with me.)

I have not read his Fund Theory (which was his doctoral dissertation) for many years. It is my impression that he was using "fund" as it is used in "fund accounting"; that is, he advocated that the accounts be divided into separate funds. This is in contrast with the "funds flow statement", which is a different idea entirely. In the book that I edited, published in 1971, "fund" is not even listed in the index.

Neither interpretation of "fund" has much influence today. It is mentioned in accounting theory books, but that is about all. My own efforts are directed at drastically reducing the number of funds that are now required in government accounting.

As you say, terminology causes much confusion. In the book you are translating, I point out that much of the confusion stems from the unfortunate definitions that have been developed by the Financial Accounting Standards Board.

Good luck,

Bob Anthony
【資料2】

A. Printing error?

p.18. external truth ....... eternal truth?
p.135. the .... the
p.81. rate rate .... rate

B. Meaning

p.106. intermediate product ....... same with work in process?
p.77. receive preferred stock meaning
p.viii. Meaning of "properties" in the premise 2. a. something like wealth, or
       b. characteristics

C. Confirmation and Explanation

[1] "accounting should tell it like it was, without regard to what impact of
the accounting numbers may be." (p.47.)

Is this passage the source of the main title of the 1983 version?

Is this the main theme that you proposing? Is the flow of interest
cost (including implicit interest cost flow) the event that have already
happened?

Do you think that the impact of price level changes should be considered as
events which have already happened?

[2] "Accounting reports on events that have already happened (Premise 4)" p.142
whereas the Premise 4 states "Financial accounting reports the economic
activities and the economic status of an economic entity."

Would you please explain the relationship between the two? Isn't it Premise
14, or Concept 3.02.?
[3] About Entity Equity:
I understand that entity equity decreases when it suffer a loss. Are there any other cases when entity equity decrease?

Does the compensation paid to top executives cause the decrease of entity equity? If there are some cases or possibility of the direct decrease of entity equity, is it necessary to think of the concepts that cover the "distribution of entity equity" and the "commitment on entity equity"?

[4] Asset = Sources of Funds

Liability

Shareholder’s Equity

Entity Equity

Why is only "liability" defined or named differently?

Why asset is not defined as the "Use or Application of funds"?

[5] p.103. How $40 was divided into $32(cost of goods sold) and $8(inventory)? Are any explanations or assumptions implicit in the book?
D. FASB issues:


Did you played a significant role in this action?

[2] About the three views of financial accounting:

A/L view
R/E view
Funds Flow view: The third view (non articulation view)

It seems that the Funds flow view has less support in the U.S.. I wonder why.

According to the Funds flow view, balance sheet is explained that it shows the sources and applications of funds at a certain time. Professor Anthony's views on balance sheet are almost the same with that of this view. But when the author explains income measurement, the author favours R/E view, and discards the funds flow view.

It is true that non-articulation view can not be supported easily, but the non articulation view is just one extreme position of the Funds Flow view. There exists a income determination theory which is compatible with the author's balance sheet view. Can such a view (funds flow view of income determination) be compatible with "the framework"?
Discussion Paper Series

1 - 4

Funds Flow View of Financial Accounting
-- the third approach to constructing
the conceptual framework of accounting

Michimasa Satoh

The Association of Economics
of Okayama University
Tsushima, Okayama City, Japan
Funds Flow View of Financial Accounting
-- the third approach to constructing
the conceptual framework of accounting

Michimasa Satoh

July, 1983
Revised March, 1984
Introduction

More than a decade has passed since the funds statement became one of the major financial statements. However, so far there has not been an adequate answer to the question of how traditional financial statements such as the balance sheet and the income statement can be treated in the framework of financial accounting in which the funds statement is involved.¹

Two factors seem to make this inquiry difficult. First of all, the "funds statement" is interpreted in so many ways that it is possible for several different "funds statements" to exist. Many recommendations have been made relating to which objectives of this statement should be emphasized, how the concept of funds should be defined, and what form of this statement should be adopted. This confusion has seriously hampered any effort to create a uniform framework of financial accounting that includes the "funds statement". The second factor which has discouraged the creation of a new framework is the existence of at least three different approaches to making a uniform conceptual framework of financial accounting. These are the Revenue and Expense view, the Asset and Liability view and a third view which can be called the Funds Flow view.²

Two of these approaches are well known in relation to constructing the conceptual framework of financial accounting: the Asset and Liability view and the Revenue and Expense view. The first approach emphasizes the concept of asset and liability as its "center of gravity",³ the second approach emphasizes the concept of revenue and expense. Beginning in 1961, the emphasis began to shift from the Revenue and Expense view to the Asset and Liability view.⁴ Today, it is evident that the FASB has selected the Asset and Liability view as the preferred approach in constructing a conceptual framework of financial
almost no attention has been paid to the third, lesser known approach which views the concept of funds as a central element of financial accounting.

Before the funds statement became one of the major financial statements in 1970, it was sufficient to pay attention to the first two views in order to explain the financial accounting in which the balance sheet and the income statement were the two major financial statements. After the SEC and the APB ruled that the funds statement should be one of the major financial statements, however, this situation should have been changed; neither the Revenue and Expense view nor the Asset and Liability view could explain adequately the funds statement.

The following chart shows a comparison of the three different views of financial accounting. It illustrates how the major financial statements are interpreted under three different views.

<table>
<thead>
<tr>
<th>Accounting views</th>
<th>Accounting for assets &amp; liabilities:</th>
<th>Accounting for income calculation:</th>
<th>Accounting for the flow of funds:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset &amp; Liability view</td>
<td>Balance sheet</td>
<td>Income statement</td>
<td>Funds statement</td>
</tr>
<tr>
<td>Revenue &amp; Expense view</td>
<td>statement of financial conditions</td>
<td>equity change approach</td>
<td>not mentioned</td>
</tr>
<tr>
<td>Funds Flow view</td>
<td>balance of the balance of ledger accounts</td>
<td>statement of revenues and expenses transaction approach</td>
<td>not mentioned</td>
</tr>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>statement of funds flow</td>
</tr>
</tbody>
</table>
The Asset and Liability view defines assets as economic resources and liabilities as obligations to render these economic resources. This concept is the central element in the Asset and Liability view. The balance sheet is the most important statement in this view. It shows the financial conditions of a company by listing the assets and liabilities. According to this view, income is defined in terms of asset and liability; income is, therefore, the increase of the net asset between two points of time. Since income is treated this way, the income statement is interpreted to show the cause of the changes in the net asset. Nothing has been mentioned about the funds statement in terms of asset and liability.

The on-going projects of the FASB, "Elements of Financial Statements of Business Enterprise", which clearly adopts the Asset and Liability view does not seem to be attempting to define the funds statement in terms of asset and liability. They are going to discard the position taken in the APB Opinion No. 19 by replacing the "Statement of the changes in financial position" with the statement of cash receipts and disbursements. The reason for this replacement is not clear. But the FASB seems to accept the argument put forth by Professor Loyd C. Heath that the statement of cash receipts and disbursements is more useful than other types of funds statements in evaluating the solvency of companies (Heath, 1978).

The Revenue and Expense view interprets the concept of revenue and expense (and hence the concept of matching expense with revenue) as the central element of financial accounting. The income statement is the most important statement because the central element is embodied in the statement itself. The balance sheet is interpreted as a means to carry forward the balances of ledger accounts. In this sense, the balance sheet can be called a "balance of balance". Again,
as with the Asset and Liability view, little has been mentioned about the funds statement in terms of revenue and expense. The history of accounting reveals that the Revenue Expense view has not succeeded in incorporating the funds statement into its conceptual framework of financial accounting.

It seems clear that the Revenue and Expense view has been adopted by the series of Accounting Standards issued by the American Accounting Association during 1936-57 and An Introduction to Corporate Accounting Standards by W. A. Paton and A. C. Littleton. The funds statement, however, was interpreted as a supplementary statement under this approach. The information presented by the funds statement was believed to be useful, but not more useful than the information given by the income statement. It was not necessary for these authors to consider the funds statement in terms of revenue and expense because the funds statement was not, at that time, a major financial statement. Yet even if they had tried to explain the funds statement only in terms of revenue and expense, they would have had great difficulty; revenue and expense can be defined in terms of funds, but the concept of funds can not be well defined in terms of revenue and expense.

Unlike these two financial accounting views, there is no need, with the Funds Flow View, to explain how the funds statement stands in its framework; the concept of funds is the central element in the Funds Flow view and this concept is embodied in the funds statement. Therefore, the Funds Flow view seems to be indispensable in constructing the new framework of financial accounting that has developed after 1970.

It is sometimes argued, with the Funds Flow view, that the balance sheet can be interpreted in terms of funds: a static funds statement, which shows the sources of corporate funds and its applications at a certain point of time. However, not enough attention has been paid to the question of how to explain
the income statement and hence income calculation in terms of funds. It seems to me that this has been a serious blind point in the Funds Flow view of financial accounting.

With this problem in mind, I would like to make it clear first how the balance sheet and the income statement were interpreted in terms of funds in the history of financial accounting in the United States (section 1, 2) and then how income calculation can be defined in terms of various concepts of funds (section 3). Implications of the finding will be discussed in the last two sections (section 4, 5).

1. Funds Flow View of Balance Sheet

1.1 Cash theory

The first evidence of the Fund Flow view of the balance sheet is probably the "cash theory" which appeared in The Philosophy of Accounts by Charles T. Sprague in 1907. According to Sprague's "cash theory", the balance sheet is interpreted as follows:

"A very large number of the transactions are genuinely cash, and it is evident that the others may be separated into two each, one involving a receipt of cash and the other an expenditure. Without at present dwelling on this, we may conclude that any asset, except cash itself, may be considered to have cost money, and that any liability or proprietorship may be considered as having procured money or as being a source of money. The debit side of the balance sheet is transformed into a statement of cash paid, and the credit side into a statement of cash received--a reversed cash statement." (p. 48)
Even though this idea appeared in an early stage of the study of accountancy, this interpretation of the balance sheet failed to receive wide support. This could be due to several factors.

First of all, there are problems inherent to the cash theory itself. The cash theory, which plausibly explains the British balance sheet, is not entirely suitable for the American balance sheet. In the British form of the balance sheet, the assets are placed on the right side and the liabilities and capitals are placed on the left side. This placement is the same as the cash statement. Since the American balance sheet is structured in exactly the opposite manner, it is difficult to apply the cash theory to the American balance sheet. Sprague also assumed that every transaction passed through the phase of cash; this assumption is, of course, far from real accounting practices. Furthermore, according to the cash theory, retained earnings should be defined as a source of cash receipts. It is obvious, however, that retained earnings can not be treated as if they come from a single cash transaction.

Secondly, it appears that, in the United States, the practical aspects of the balance sheet have received more attention than such theoretical aspects as the "cash theory". This is evidenced by the "where-got, where-gone" statement which appeared in the book written by William M. Cole in 1908 (Cole, 1908). Cole showed that by analyzing the two successive balance sheets, the statement which shows the flow of funds can be derived. This technique implicitly relies on the assumption that the balance sheet embodies the flow of funds. After the publication of Cole's book, many authors referred to funds flow analysis as an interpretation of the balance sheet for practical use. Theoretical explanations, such as the "cash theory", were therefore neglected.
In 1909, another theory appeared which explained the balance sheet in a different manner. This is the third factor which contributed to the relative obscurity of Sprague's cash theory. This new theory was presented by Dr. Walter Staub in the Journal of Accountancy (Staub, 1909). Staub's idea was that all the assets except cash and accounts receivable can be defined as deferred charges.

"In fact, almost all the assets of manufacturing, transportation or public service undertaking which have not had their financial status fixed beyond the probability of being influenced by future operation, meaning by this latter class such as cash and receivables, are in reality but deferred charges to operating."
(p. 401)

Staub's idea, not the cash theory, gained wide support from that time. This idea, as well as the cost basis of accounting and the concept of matching was adopted to the Accounting Principles by authoritative accounting bodies.11

1.2 Re-appearance of the funds flow view of the balance sheet

It was not until 1940 that the Funds Flow view of the balance sheet reappeared in the American literature of accounting. At that time, the cost basis valuation had been recognized as a generally accepted accounting principle. This fact provided a favorable background for the proponent of the Funds Flow view of the balance sheet; although the value oriented balance sheet contradicts the Funds Flow view of the balance sheet, the cost basis balance sheet does not.
In 1940, W. Whitney asked "What is the balance sheet?", and he concluded that "Essentially, a corporation balance sheet is an accounting of management to shareholders for expenditures made in acquiring properties owned and for unconsumed benefits properly chargeable to future operations." (Whitney, 1940, p. 303). The idea of "fiduciary accounting" was one source of the funds flow view of the balance sheet. According to this idea, the responsibilities and the duties of corporate management to shareholders are actually fiduciary in character, and the balance sheet is deemed as the accounting which corporate managements should render to shareholders for use and care of shareholders funds. It should be noted, however, that Whitney had to rely in part on the Revenue and Expense view in describing his funds flow view of the balance sheet.\(^{12}\)

He not only described the balance sheet in terms of funds but also demonstrated a balance sheet which was based on his fiduciary oriented balance sheet view.\(^{13}\) The most important characteristic of his balance sheet is the separation of the balance sheet into two sections: the working capital section and the long term capital section. The reason for this separation was that "accounting can be better understood when segregations are made." (Whitney, 1940, p. 304). This idea was succeeded by the Fund Theory by W. J. Vatter in 1947.\(^{14}\) Because of this segregation, Whitney thought, the source of funds retained in the form of working capital are clearly disclosed on the accompanying statement (Appendix A), and it answers the question propounded by so many beginning students of finance, "What has become of the profits that were not paid out in dividends?" (Whitney, 1940, p. 305).

There is no doubt that the Fund Flow view of the balance sheet was strongly enhanced by increased attention to the funds statement. Before
1940, the funds statement was the product of the analysis of the balance sheet and the income statement. After 1940, however, the situation became reversed: the balance sheet and the income statement began to be viewed in terms of the funds statement. This shift could be due to the accumulated knowledge on funds flow analysis; the argument revolving around the funds statement had matured to a point where theorists began to view the funds statement as an important tool of financial accounting theory construction.

C. N. Sellie was the first to present the Funds Flow view of the balance sheet in relation to the funds statement (Sellie, 1943). According to Sellie, "The chief function of the balance sheet is to reflect the investments of funds on the assets side and the source of funds on the assets side, and the chief function of the profit and loss statement is to show sources of funds on the revenue side and application of funds (current and past) on the expense side" (Sellie, p. 160).

This idea was explored more thoroughly by A. B. Carson (Carson, 1949). He writes that the funds statement was the starting point from which he got the idea to explain financial accounting in terms of funds. According to him, the "source and application of funds statement embodies a viewpoint that provides the seeds of a philosophy of financial accounting." (Carson, p. 159). He explained the balance sheet in terms of funds flow and suggested a recommended form of the balance sheet by using particular accounting techniques that showed the flow of funds more clearly. More importantly, as will be discussed later, he described the income statement in terms of funds.

Nowadays, many textbooks and articles have adopted the funds flow view of the balance sheet. This view of the balance sheet can be traced back to these forerunners: Sprague, Whitney, Sellie and Carson. It should
be noted, however, that it was the funds flow view coupled with the funds statement, not the funds flow view coupled with fiduciary accounting, or the cash theory that explained the income statement as well as the balance sheet in terms of funds.

2. Funds Flow View of the Income Statement

2.1 Fund flow approach to income calculation

As was shown above with Sellie's and Carson's Funds Flow view, income calculation can be explained in terms of funds flow. It is true that the proponents of the Revenue and Expense view must rely, in some part, on the concept of funds flow when they define revenue and expense. However, under the Revenue and Expense framework, matching revenue and expense is the most important concept. Therefore, in order to achieve the best matching of revenue and expense, the proponents of this view overlook the fact that the flow of funds are separated into different statements. Contrary to the Revenue and Expense view, the concept of matching becomes second under the Funds Flow view of financial accounting. Hence, the concept of funds flow plays the most important role in defining the income calculation.

Sellie only briefly mentioned the income statement in terms of funds flow, but Carson suggested the possibility of one form of the income statement which conformed to the Funds Flow view. Carson's idea was "not to cloud the feature of funds flow" (p. 162). First of all, in order to get funds provided by operations (FPO), revenues which involve funds inflows are matched with the expenses which involve funds outflow. To reach net profit, revenues which do not involve funds inflow are added to this amount, and expenses which do not involve funds outflow, are subtracted.
(See diagram below). This way of calculation of net profit can be called the "funds flow approach" to income calculation or the "funds flow method" of income calculation.

\[
\begin{align*}
\text{Funds Revenues} & \quad xxxxxxx \\
\text{Funds Expenses} & \quad (xxxxxx) \\
\text{FPO} & \quad xxxxxxx \\
\text{Non-Funds Revenues} & \quad xxxxxxx \\
\text{Non-Funds Expenses} & \quad (xxxxxx) \\
\text{Net Income} & \quad xxxxxxx
\end{align*}
\]

There are some serious limitations in this form of income statement. First, when we attempt to prepare this type of income statement, we will be unable to obtain the statement which clearly shows the performance of the company. In this type of statement, operating activities are not clearly shown; the company's operating activities may be reported in two separate sections. For example, one part of the selling or the administration expenses may be reported in the section of funds provided by operation, while the other part of these expenses may be reported in the non-funds adjustment section. Second, in the case of any manufacturing company, it is quite difficult to treat adequately the depreciation expense which is allocated to inventories; a clear separation of funds expenses from non-funds expenses is not feasible in the above income statement form for manufacturing companies. However, we can get some fruitful results if we use the method suggested by Carson only to analyze and interpret the standard income statement, not to try to prepare the income statement in his way.
In 1955, Horngren demonstrated the "funds flow thinking" used by the professional financial analysts (Horngren, 1955). According to him, the financial analysts interpret the income statement in the same way as Carson suggested. They analyze the flows of funds as follows:

"Income is the difference between revenue from customers and the current costs of obtaining the revenue (materials, wages, utilities, advertising). Then the depreciation allocation is separated from this difference and should be devoted to capital expenditures or to the payment of debts arising from prior capital expenditures. (Depreciation is 'something special' which is related to fixed asset outlays.) The residual is available for dividends, further capital expenditures, payment of long-term debt, or expansion of working capital. Earnings as reported under conventional accounting, therefore, do not connote distributable earnings and are not thought of as such." (p. 579)

As can be noticed, the most important characteristic of this approach is to grasp income in relation to funds flows. In this approach, the amount of funds provided by operations functions as a bridge between the reported accounting income and the funds flow because accounting income is defined in terms of funds flows: FPO _ non-fund items. In this sense, if we suppose that such a calculation exists "between the lines" of the usual income statement, it becomes possible to understand the income calculation in relation to financial aspects of corporations.
2.2 The characteristic of the funds flow approach

The funds flow approach to income calculation is different from the equity change approach and the transaction approach even though all of these approaches may create the same amount of net income figures. Because a distinction must be made between funds transactions and non-funds transactions, the amount of FPO must be calculated first, then various non-funds items are added or subtracted to get net income. The separation of income calculation into two parts in terms of funds is the main characteristic of this approach under the accrual basis of accounting.

In the traditional approach to income calculation, out-of-pocket expenses and non-cash expenses such as depreciation are deemed to be the same when they are subtracted from revenue. Paton and Littleton in An Introduction to Corporate Accounting Standards write:

"In their essential relation to revenues, as in their relation to assets, all costs are homogeneous and rank abreast; this is a basic principle in the development of a reasonable scheme of matching charges and revenues. Costs, in other words are not recovered through revenues in preferential order. (Paton and Littleton, 1940, p. 65).

The proponent of the funds flow approach, however, does not agree that the depreciation expense is the same as other expenses. Although A. B. Carson was not specifically arguing against Paton and Littleton, he did write the following:

"Accountants have taken great pains to convince everyone that depreciation is just as much an expense of a period
as, for example, sales salaries. Their efforts have had considerable success. It is suggested, however, that they may have oversold the idea a bit. There is much to commend the process of attempting to charge the cost of an asset to the periods it benefits. Such treatment is the very core of conventional accrual accounting. That, however, is no reason to suggest or imply that depreciation and similar write-offs are exactly the same as most other expenses. Business people know that such is not the case." (Carson, 1949, p. 162)

The funds flow approach to income calculation also differs from the equity change approach. Since the concept of operating activities is essential to the funds flow approach in calculating the FPO, it is strongly implied that the balance sheet items are classified according to this concept of operating activities. However, the balance sheet items are not necessarily classified when the comprehensive income is calculated according to the equity change approach. Rather, it can be said that the homogeneity of the balance sheet items in terms of the comprehensive income is supposed in the equity change approach.

3. The Funds Flow Approach Under Various Concepts of Funds

Since the term "funds" can be defined in several ways, the idea of the funds flow approach to income determination should be elaborated upon in terms of the different definitions of funds. Sellie and Horngren overlooked this need. Carson did note that there are at least three concepts of funds but he did not take this into consideration when he suggested the fund flow approach to income calculation in 1949.17
There are at least seven definitions of funds: all financial resources, working capital, net monetary asset, current asset, quick asset, cash plus marketable securities and cash. However, as all these definitions are not relevant to this argument, several of them do not have to be considered. The "all-financial-resources-concept" -- the broadest concept of funds -- can be overlooked here because other narrower definitions should be selected whenever the amount of funds from operations is calculated. The quick asset and current asset concepts are seldom used in practice. We can skip either the cash plus marketable securities concept or the cash concept because they create identical figures when the funds provided by operation is calculated. Therefore, it is sufficient here to consider the following three definitions of funds: cash, net monetary asset, and working capital. For the purpose of clarity, cash provided by operations, net short term monetary assets provided by operations, and working capital provided by operations will be called, respectively, CPO, QPO and WPO in relation to "funds provided by operations."

3.1 Cash

If "funds" is regarded as cash, then "funds provided by operations" is in fact "cash provided by operations" which is simply called CPO. CPO can be defined as a cash basis income. The amount of CPO is usually shown in the statement of cash receipts and disbursements, which is the statement that represents the Funds Flow view of financial accounting. In this sense the pure form of the funds flow method of income calculation is seen in the statement of cash receipts and disbursements. However, the pure form should be adapted to the current practice of the accrual basis of accounting; this will be illustrated in the equation below.

In order to get the amount of cash from operations according to the
funds flow method explained above, cash payments for the operating activities such as payments for merchandise, selling and administrative costs, interest and taxes are subtracted from the cash receipts through recurring operations such as receipts from cash sales and collections from customers. This "cash provided by operations" section in the funds flow-oriented income statement can be structured in the same manner as the "cash from the recurring operations" section in the statement of cash receipts and disbursements. The remaining sections of the funds-flow oriented income statement, however, must differ from the remaining sections of the statement of cash because the purpose of the former is to calculate income and the purpose of the latter is to calculate the net change of cash balance.

In order to get net income in the funds flow-oriented income statement, various non-cash items must be added to and subtracted from the cash provided by operations. These non-cash items include the amount of increase or decrease of inventories, pre-paid expenses, deferred credits to revenue and note and account receivables or payables as well as the amount of depreciation, amortization and estimated liabilities for expenses. This relationship can be shown as follows.\(^{19}\)

\[
\text{CPO} + (\Delta r - \Delta dr) - (\Delta p - \Delta i + d) = \text{Net Income} \quad \ldots \ldots \ldots (A)
\]

where, CPO = cash provided by operations.

\[\Delta r = \text{increase in accounts and (trade) notes receivable and accrued assets.}\]

\[\Delta dr = \text{increase in deferred revenue.}\]

\[\Delta p = \text{increase in accounts and (trade) notes payable and accrued liabilities.}\]

\[\Delta i = \text{increase in inventories and prepaid expenses.}\]

\[d = \text{depreciation and other expenses for estimated liabilities.}\]
3.2 Net short term monetary assets

The net short term monetary assets is often called net quick assets. Short term monetary assets include cash, and claims to cash such as various types of receivables and marketable securities. Short-term monetary liabilities are obligations to pay cash within the near future. The net short term monetary assets equals the excess of the short term monetary assets over the short term monetary liabilities.

The amount of the net short term monetary assets inflow from operations equals the amount of revenue because whenever revenue is recognized, net monetary assets increase by the increase of cash, accounts or notes receivable or by the decrease of current liabilities through operating transactions. The outflow of net short term monetary assets by operations are brought about through the purchase of merchandise, routine purchase of supplies and services, taxes and interest cost accrued. By subtracting the "funds" outflows from the "funds" inflows, the net short-term monetary assets provided by operations can be obtained. The items that make differences between cash provided by operations and net short-term monetary assets provided by operations are the increases or decreases of notes and accounts payable and receivable.

Because the inventories and prepaid items are excluded from this concept of funds, in order to get net income, the amount of change in inventories and prepaid expenses as well as depreciation and allowances for estimated liabilities is subtracted from or added to the amount of net monetary assets from operations. This can be illustrated with the following equation:

\[
\frac{CPO + \Delta T - \Delta P}{QPO} - \underbrace{(\Delta dr - \Delta i + d)}_{\text{non-funds adjustments}} = \text{Net Income}........(B)
\]
The above equation was derived simply by rearranging equation (A).

The Net short term monetary assets concept is a more refined concept in the framework of funds-flow oriented income calculation. If the cash concept is used, many operations are needed to reconcile cash provided by operation and net income. The net short-term monetary assets concept requires fewer operationals and is therefore more simple and convenient.

3.3 Working capital

Working capital consists of current assets and current liabilities. Therefore, under the working capital concept of funds, sales of merchandise and services and other incomes are funds revenues; cost of goods sold, selling and administration costs, interest costs accrued and tax expenses are funds expenses. By subtracting these funds expenses from funds revenues, working capital provided by operations can be obtained.

The difference between the working capital from operations and the net short term monetary assets from operations consists of the amount of changes in inventories, prepaid expenses and deferred credit to revenues. When the working capital concept is adopted, the Funds Flow approach to income calculation can be expressed as follows:

\[
\begin{align*}
CPO + \Delta r - \Delta dr - \Delta p - \Delta i & - d = \text{Net Income} \quad \cdots \quad (C)
\end{align*}
\]

Working capital provided by operations is closer to net income because, unlike the cash and net short term monetary assets from operations, working capital takes into consideration all accruals and deferrals relating to current items. Therefore, in order to get net income, non-fund expenses which relate to non-current items are subtracted from the working capital.
from operations. These non-fund expenses include items such as depreciation charges and expenses for estimated liabilities such as liabilities from warranties.

The amount of working capital from operations can be obtained by another method. This method requires two steps. First, the changes in working capital must be measured by inventory or from the book of accounts. The second step requires the amount which reduced the working capital directly by investment transactions to be added and the amount which increased working capital through financial activities to be subtracted from the net changes of working capital. When the same valuation basis is applied, these two approaches will produce the same amount, even though the conventional financial accounting system is not constructed to measure this amount.

$$W_1 - W_0 = \Delta W$$

$$\Delta W + I - F = W_{PO}$$

where: \( W \) = Working capital
\( I \) = Capital expenditures which reduce \( W \)
\( F \) = Long term financings which increase \( W \)

3.4 The alternative asset flows

Because we can derive accrual income figures from each of the above approaches, it is easily inferred that CPO, QPO and WPO have a definite relationship to one another. Accrual income is obtained by systematically deferring and accruing the various cash flows according to accounting principles. During this process, the amount of CPO, QPO and WPO is in-
fluenced by these accrual and deferral procedures.

When the amount of CPO is given, QPO can be derived by adding or subtracting the increase or decrease of trade receivables and payables. WPO can be derived by adding or subtracting the QPO to or from the increase or decrease of inventories, pre-paid expenses or deferred credit to income. The fact that accrual income can be drawn by subtracting the depreciation charges and other similar charges from WPO is shown in the previous section. Thus, the relationship between these four accounting flows can be summarized as follows:

- **Earnings**
- **Working flow (WPO)**
- **Quick flow (QPO)**
- **Cash flow (CPO)**

> Depreciation and similar charges
> Changes in inventories, prepaid expense and deferred revenue
> Changes in trade receivables and payables

G. J. Staubus considered the relationships between these four alternative accounting flows (Staubus, 1966). He, however, didn't show that these flows are mutually reconcilable. It might be because he thought that this was self-evident. He instead tried to count the number of accounting judgments which were necessarily involved in measuring these four alternative accounting flows. He demonstrated that the more subtle the measurement (i.e., the measurement to achieve a better matching between revenue and expense), the more the accounting judgements are involved. Of course, the more judgements involved, the more difficulties accountants will confront in accounting measurement. The more important point, however, is that this relationship shows in another way that the Fund Flow approach to income calculation holds under every concept of funds.
4. The Funds Flow Approach to Income Calculation and the Funds Statement

4.1 The funds statement as an embodiment of the funds flow approach

The funds statement is commonly viewed as a statement of corporate financing and investing activities. A careful examination, however, reveals that one type of income calculation exists in the funds statement. Let us suppose the Funds Statement which uses the indirect method in calculating the FPO and which interprets funds as working capital (or circulating capital). The structure of this form of the funds statement can be briefly shown as follows:

\[ \text{Net Income} + \text{Depreciation etc.} = \text{FPO} + \text{Long term financing} - \text{Investment} = \text{Changes in working Capital} \]

Traditionally we read this type of the funds statement in this order:

\[ E + D = \text{FPO}, \quad \text{FPO} + C - B = A \]

If we start from the bottom line, however, and read up, an unexpected result can be seen: \[ A + B - C = \text{FPO}, \quad \text{and} \quad \text{FPO} - D = E. \]

In the first equation, it is shown that the amount of external financing transactions which directly increases the amount of working capital is subtracted from, and the amount of investing transactions which directly decreases the working capital is added to the net changes in working capital. The resulting amount indicates the changes in working capital.
caused by the operating activities. This amount is actually nothing but the FPO; the "funds increases" which do not come from external sources are derived from internal sources. The second equation \((\text{FPO} - \text{D} = \text{E})\) itself shows nothing but the funds flow method of income calculation, a method which was explained in the above sections. Therefore, a more general form of income calculation according to the funds flow method is in the whole funds statement.

There is no doubt that this relationship holds under every concept of funds. The following chart shows a brief structure of the typical funds statement which uses the indirect method in calculating the FPO and which interprets funds as cash:

Net Income...................... xxxx
Depreciation etc............(+)xxxx
Increase or decrease in inventories and prepaid expenses............(+)xxxx
Increase or decrease in account and note receivables....................(+)xxxx
Increase or decrease in account and note payables.......................(±)xxxx

CPO........................... xxxx
Long term and short term financing..................(+)(+)xxxx
Investment and payment of debts..........................(-)xxxx

Changes in cash............. xxxx
When we read this statement from the bottom line up again, we can see that the CPO is obtained by adding the amount of investing and debt paying transactions to, and subtracting the amount of financing transactions from the net changes of cash during a given accounting period, and then we can see that the net income figure can be obtained by adjusting (adding and subtracting) the non-funds items to the CPO.

The funds statement prepared in the direct method shows FPO, without any adjustments, as a result of income calculation according to cash basis or funds basis. However, it is possible to say that the funds statement prepared in the indirect method shows net income figures by adjusting FPO according to the Funds Flow method. This type of funds statement can be said to be articulated with the balance sheet and the income statement in the sense that it can show the same measurement level of profit that is shown in the balance sheet and the income statement.

Recognizing that the funds flow method of income calculation is processed in the funds statement helps to bring forth the idea that the funds flow view of financial accounting is an independent accounting view like the Asset and Liability view and the Revenue and Expense view. The funds flow approach to income calculation is processed in the third major financial statement just as the equity change approach is processed in the balance sheet and the transaction approach is processed in the income statement. Furthermore, the balance sheet and the income statement can be explained in terms of funds according to the Funds Flow view of financial accounting.

4.2 Its implication to the objective of the funds statement

A study of the history of the funds statement suggests that three major
objectives have been, at some point, discussed in relation to the purpose of the funds statement. A recognition that the funds flow method is processed in the funds statement, however, reveals the significance of the one objective of the funds Statement.

One way of interpreting the funds statement -- this is perhaps the most popular -- involves seeing the funds statement as a means to evaluate the solvency of a company. Another interpretation is related to showing the expansion or contraction pattern of a company through its financial transactions. The third interpretation sees the funds statement as a means of showing the relationship between the amount of profit and funds. This third interpretation was the original objective of the funds statement, which appeared on a 1898 CPA examination. It answers the question "what has become of profit?"

The first objective cited above was studied recently by Professor Loyd C. Heath at the University of Washington (Heath, 1978). He broke the historically locked chain between the solvency and the working capital concepts of funds, and recommended a statement of cash receipts and disbursements. The second objective was studied by Professor Harold E. Arnett at the University of Michigan (Arnett, 1979). He insists that the information about the growth of a company is useful to company managers as well as investors and that the funds statement is a good means to communicate this information. The third objective has not received much support since 1948. Professor Heath believes this third objective is meaningless because "profit is not a physical 'thing' that can be disposed of, retained, or paid out." He argues that no statement can show what has become of profit (Heath, 1978, pp. 101-102).

It is true that profit is an abstract figure; it signifies a change in
net asset which is shown on the credit side of the balance sheet. In this sense, "what has become of profit?" may not be a valid question. However, the important point here is not whether this question is valid, but what the intention of this expression was. Even if profit can not be retained or distributed, it can be related to the flow of funds.

A recognition that the Funds Flow method is processed in the funds statement reveals the significance of the third objective of the funds statement. The question "what has become of profit?" seems to intend to show the relationship between the internal source of funds (FPO and its components) and other sources and uses of funds.

Some assumptions might be necessary in order to show the relationship between the sources of funds and the uses of funds. When we assume that the funds from selling activities are used in order of priority to purchase materials and labor for recurring operations, we can see an operating cycle. Then we can measure the funds from operations. This figure can be shown in relation to other sources and uses of funds in the funds statement, and, as was explained earlier, reconciled to the amount of profit. Hence, it seems clear that the funds statement, prepared in the indirect method can be an effective means of explaining questions about corporate financial policy such as "why were the funds balance and the amount of dividends decreased even though the amount of retained earning was increased?"

5. **The Implication of the Finding to the FASB Project**

It has been shown that the major aspects of financial accounting can be explained in terms of funds. The central element of the Funds Flow view is the concept of funds. The balance sheet can be deemed as the statement which shows the source of corporate funds and its applications, though there are some
exceptions. The income calculation can be explained as the adjustments of non-funds items to FPO. The funds statement can be thought of as the statement in which the funds flow method of income calculation is processed. Hence, the Funds Flow view can be seen as the third major view.

Figure 2

<table>
<thead>
<tr>
<th>Accounting Views</th>
<th>Accounting for assets &amp; liabilities</th>
<th>Accounting for income calculation</th>
<th>Accounting for the flow of funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset &amp; Liability View</td>
<td>Balance sheet</td>
<td>Income statement</td>
<td>Funds statement</td>
</tr>
<tr>
<td>Revenue &amp; Expense View</td>
<td>statement of financial conditions</td>
<td>equity change approach</td>
<td>not mentioned</td>
</tr>
<tr>
<td>Funds Flow View</td>
<td>balance of the balance of ledger accounts</td>
<td>statement of revenues and expenses</td>
<td>not mentioned</td>
</tr>
<tr>
<td></td>
<td></td>
<td>transaction approach</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1) statement of corporate funds and its applications</td>
<td>(2) funds flow approach</td>
<td>statement of funds flow</td>
</tr>
</tbody>
</table>

This chart shows that the three major financial statements are the leading statements in each three accounting views: the balance sheet for the Asset and Liability view, the income statement for the Revenue and Expense view, and the funds statement for the funds flow view. Furthermore, these three major financial statements are the embodiment of the three methods of income calculation: the equity change method is shown in the balance sheet, the transaction method in the income statement, and the funds flow method in the funds statement.

Three types of accounting are necessary in corporate accounting. The first
type is structured to account for funds inflow and outflow, the second, for assets and liabilities and the third, for revenue and expense. The funds statement, the balance sheet and the income statement are the final statements of each type of accounting. As was shown in the above diagram, there are three views of financial accounting. The characteristics of these three views become clear if the views are matched with the three types of accounting. It seems that the characteristics of the funds flow aspect of accounting can be best represented by the Funds Flow view. Similarly, the asset and liability aspect of accounting can be represented in the most thorough manner by the Asset and Liability view, and the revenue and expense aspect is best represented by the Revenue and Expense view. Because accounting in practice consists of these three different dimensions, a single view can not adequately describe financial accounting. For example, deferred charges and revenues can be defined easily according to the Revenue and Expense view but they can not be explained without difficulty according to the Asset and Liability view. Similarly, the valuation of assets such as marketable securities are explained well by the Asset and Liability view, but are not explained well by the Revenue and Expense view. And, of course, the accounting practices that prepare the funds statement are easily described according to the Funds Flow view, but they can only be inadequately described by the Asset and Liability view and poorly described by the Revenue and Expense view.

Therefore, it becomes clear, at this point, that the FASB overlooked or perhaps neglected the Funds Flow view. In the Discussion Memorandum 1976, attention was paid almost exclusively to the two well known accounting views, the Asset and Liability view and the Revenue and Expense view. What is more, the FASB selected the "non-articulation" view as the third view. The non-articulation view, however, is nothing but a compromise between the Asset and Liability view and the Revenue and Expense view, and has no power to explain
adequately the balance sheet, the income statement or the funds statement. The FASB should have compared the Asset and Liability view, Revenue and Expense view and the Funds Flow view, in the same manner that Professor Sprouse compared the three views of the balance sheet in 1971.

Furthermore, the FASB seems to rely on a single accounting view in formulating the conceptual framework of financial accounting which, as was shown, is not adequate. It is clear that the FASB has selected the Asset and Liability view to construct the conceptual framework of financial accounting. Therefore, the FASB has to explain the funds statement in terms of asset and liability in order to be consistent in constructing the conceptual framework. The FASB preferred the statement of cash receipts and disbursements, to the statement of changes in financial position, while they excluded the concept of cash or funds from the ten basic elements of financial accounting (FASB, 1980). The FASB did not try to mention the statement of cash receipts and disbursements in terms of asset and liability. Even if they had tried to explain the funds statement in terms of asset and liability they would have encountered many difficulties, or at least more difficulties than they would face according to the Funds Flow view, because the funds statement can be explained most naturally according to the Funds flow view.

**Conclusion**

According to the Funds Flow view, the balance sheet is interpreted as the static funds statement which shows the sources of corporate funds and their applications at a certain point of time. The income statement is viewed as the flow statement, behind which the funds flow method of income calculation is processed. Furthermore, it can be illustrated that the funds statement shows this funds flow method of income calculation as a statement which articulates
with other major financial statements.

The Funds Flow view exists in the history of accounting. The Funds Flow view of the balance sheet appeared just after the turn of this century. Although this view became overshadowed by the Revenue and Expense view of the balance sheet and it therefore remained undeveloped, it reappeared after 1940. The increased attention to the funds statement coupled with the accumulated knowledge of this statement was the most important factor in the reappearance of the funds statement in 1940. At the same time the Funds Flow view of the income statement began to be realized in terms of the funds statement. In this paper, this view of the income statement has been developed in relation to the income determination method which can be called the funds flow approach.

Because it is able to explain the balance sheet and the income statement, the Funds Flow view of financial accounting can be recognized as an independent financial accounting view. Even if the FASB creates a conceptual framework of financial accounting according to the Asset and Liability view, as long as the funds statement is included in its framework, there will be a significant blank area which can be explained only by the Funds Flow view of financial accounting.
Appendix A

THE XYZ CORPORATION

CLASSIFIED SUMMARY OF FUNDS INVESTED BY SHAREHOLDERS, EXPENDITURES NOT CHARGED TO PROFIT AND LOSS OR SURPLUS, RETAINED PROFITS, AND UNEXPENDED FUNDS ON HAND

As of the close of business, December 31, 1939

<table>
<thead>
<tr>
<th>CAPITAL STRUCTURE, AND FUNDS INVESTED BY SHAREHOLDERS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred stock, 10,000 shares authorized, $100 par value per share, 5% cumulative.</td>
<td></td>
</tr>
<tr>
<td>Outstanding, 6,000 shares.</td>
<td></td>
</tr>
<tr>
<td>1,000 shares exchanged for present factory site in 1924.</td>
<td>$100,000</td>
</tr>
<tr>
<td>Sold for cash at $95 per share, 5,000 shares, having an aggregate par value of.</td>
<td>500,000</td>
</tr>
<tr>
<td>Aggregate par value of 6,000 shares of preferred stock outstanding.</td>
<td>$600,000</td>
</tr>
<tr>
<td>Less discount, $5 per share on 5,000 shares.</td>
<td>25,000 $575,000</td>
</tr>
</tbody>
</table>

| Common stock, without par value. Declared value $40 per share. |  |
| Authorized and outstanding, 20,000 shares sold for cash at $40 or more per share. Aggregate declared value. | $800,000 |
| Plus premium of $10 per share on 5,000 shares sold for $50 per share. | 50,000 850,000 |
| Capital surplus from purchases and sales of treasury stock. | 48,500 |
| Total funds invested by shareholders. | $1,473,500 |
EXPENDITURES NOT CHARGED TO PROFIT AND LOSS, OR SURPLUS
Cost of land, buildings, machinery, and equipment (Schedule 1).* $1,020,336
Less mortgage bonds outstanding, including unamortized premium of $5,000  255,000

Net expenditure for land and buildings from shareholders' funds $ 765,336
Less deductions from past earnings to provide for depreciation  289,114

Unamortized cost of equity in land, buildings, machinery, etc.  $ 476,222
Stocks in uncontrolled affiliates at cost  217,864
(These stocks are not listed on any exchange.)
Goodwill at cost. Purchased from the AB Company in 1926  90,000
Prepaid expenses  27,539
Organization expense  24,865

Unamortized balances of expenditures not charged to profit and loss, or surplus $ 836,490
Unexpended remainder of shareholders' funds, now invested in working capital $ 637,010

RETAINED PROFITS
Unappropriated balance  $ 116,393
Appropriated for the protection of bondholders, in accordance with provisions in the bond indenture  130,000

Total retained profits  $ 246,393
Less deposits with the sinking fund trustee, represented by cash and securities in the sinking fund  130,000
Unexpended remainder of retained profits now invested in working capital  $ 116,393

WORKING CAPITAL (Schedule 2)*
Current assets  $1,386,460
Current liabilities  633,057 $ 753,403

*Schedules of land, buildings, machinery, and equipment, and of working capital are omitted, because their inclusion would add nothing of value bearing on the subject. If they were included, there would be nothing unusual about them, or different from similar schedules that accountants customarily make. Inventory can be valued on any basis that is considered good accounting practice without affecting the conclusions that will be drawn in this paper.

[From Whitney (1940), pp. 302-303]
Appendix B

The funds flow approach to income calculation under the cash concept of funds can be demonstrated as follows:

The amount of cash provided by operations (CPO) is obtained by subtracting the cash outflows for recurring operations from cash inflows from recurring operations.

Then,

\[ \text{CIO} - \text{COO} = \text{CPO} \]

where, CIO = cash inflows from recurring operations.

\[ \text{COO} = \text{cash outflows from recurring operations}. \]

Whereas, CIO and COO can be broken down in relation to current revenue and expense as follows:

\[ \text{CIO} = \text{CIO}^r + \text{CIO}^{nr} \]

\[ \text{COO} = \text{COO}^e + \text{COO}^{ne} \]

where, \( \text{CIO}^r \) = the part of CIO which is taken into the current income determination.

\( \text{CIO}^{nr} \) = the part of CIO which is not taken into the current income determination.

\( \text{COO}^e \) = the part of COO which is taken into the current income determination.

\( \text{COO}^{ne} \) = the part of COO which is not taken into the current income determination.

Therefore, equation (1) can be shown as follows:

\[ (\text{CIO}^r + \text{CIO}^{nr}) - (\text{COO}^e - \text{COO}^{ne}) = \text{CPO} \]

or

\[ (\text{CIO}^r - \text{COO}^e) + (\text{CIO}^{nr} - \text{COO}^{ne}) = \text{CPO} \]

Income calculation according to the matching concept can be expressed as follows:
\[ R - E = \text{Net Income} \] ..............................(3)

where, \( R = \text{Revenues} \)
\[ E = \text{Expenses} \]

In this case, \( R \) and \( E \) can be broken down in terms of cash flows as follows:
\[ R = R^C + R^{nc} \]
\[ E = E^C + E^{nc} \]

where, \( R^C = \text{Revenues which involve current cash inflows} \).
\[ R^{nc} = \text{Revenues which do not involve current cash inflows} \).
\[ E^C = \text{Expenses which involve current cash outflows} \).
\[ E^{nc} = \text{Expenses which do not involve current cash outflows} \).

Therefore, equation (3) can be shown as follows:
\[ (R^C + R^{nc}) - (E^C + E^{nc}) = \text{Net Income} \] ..............................(4)

or
\[ (R^C - E^C) + (R^{nc} - E^{nc}) = \text{Net Income} \] ..............................(4)'

By subtracting (3)' from (4)', equation (5) can be obtained. (It should be noted that \( R^C - E^C = \text{CIO}^r - \text{COO}^e \), because \( R^C = \text{CIO}^r \) and \( E^C = \text{COO}^e \) by definition.)
\[ (R^C - E^C) + (R^{nc} - E^{nc}) = \text{Net Income} \] ..............................(4)'
\[ - (\text{CIO}^r - \text{COO}^e) + (\text{CIO}^{nr} - \text{COO}^{ne}) = \text{CPO} \] ..............................(3)'
\[ (R^{nc} - E^{nc}) - (\text{CIO}^{nr} - \text{COO}^{ne}) = \text{Net Income} - \text{CPO} \] ..............................(5)

Therefore,
\[ \text{CPO} + (R^{nc} - \text{CIO}^{nr}) - (E^{nc} - \text{COO}^{ne}) = \text{Net Income} \] ..............................(6)

Since \( R^{nc} \) is defined as revenues which do not involve current cash inflows, this is reflected by the increase in accounts and tradenotes receivable, accrued assets and decreases in deferred revenues. And since \( \text{CIO}^{nr} \) is defined as the part of \( \text{CIO} \) which is not taken into current income determination, this is represented by the collections (decreases) of accounts and tradenotes receivable and increases
in deferred revenues. Therefore, \( (R^{nc} - CI10^{nr}) = (\Delta r - \Delta dr) \) (where, \( \Delta r \) is the changes in receivable, \( \Delta dr \) is the changes in deferred revenues). Then equation (7) can be obtained.

\[
\Delta r - \Delta dr = R^{nc} - CI10^{nr}
\]  

(7)

Since \( E^{nc} \) is defined as expenses which do not involve current cash outflows, \( E^{nc} \) is reflected by the increases in accounts and notes payables, the increases in accrued liabilities, decreases in prepaid expenses and inventories, and depreciation expenses and other allowances for estimated liabilities. And since \( COO^{nc} \) is defined as the part of \( COO \) which is not taken into current income determination, \( COO^{ne} \) is represented by the payment (decreases) of accounts and tradenotes payable and accrued liabilities and increases in inventories and prepaid expenses. Therefore,

\[
E^{nc} - COO^{ne} = \Delta p - \Delta i + d
\]

(8)

where, \( \Delta p \) = the changes in payables and accrued liabilities.
\( \Delta i \) = the changes in inventories and prepaid expenses.
\( d \) = depreciation expenses and others.

From (6), (7) and (8), the following equation is obtained:

\[
CPO + (\Delta r - \Delta dr) - (\Delta p - \Delta i + d) = \text{Net Income}
\]

(9)

This demonstrates the funds flow approach when the concept of funds is defined as cash.
1. This inquiry relates to the conceptual framework of financial accounting. This especially relates to two FASB projects, "Elements of financial statements of business enterprises," which is basically considering the nature of assets, liabilities and capital and the constituent of income, and "Funds flow, liquidity and financial flexibility," which deals with the form and the content of the funds statement. It should be noted, however, that, for the FASB, how the financial statements are understood is the means to create accounting rules, whereas, in this paper, the answer to this question is an end which can be obtained through demonstrating the existence of the Funds Flow view of financial accounting.

2. The term "Assets and Liability View" and "Revenue and Expense View" were first used by the FASB in 1976. The FASB placed the non-articulation view as the third view. The FASB accepted the idea that non-articulation of the balance sheet or the income statement can convey much more information than the articulated financial statement. The FASB's third view is basically a combination of certain aspects of the first and second view.

3. It was A. C. Littleton who used this phrase first. He believed that every subject has one special concept which functions as a center of gravity. And he concluded that the concept of income from matching expenses with revenues is the center of gravity in the subject of accounting: "There must be some basic concept that makes accountancy different from all other methods of quantitative analysis; there must be some central idea which expressed better than others the objectives, effects, results, ends, aims, that are characteristic of accounting -- a 'center of gravity' so to speak. ..... Examples of characteristic notions of this sort include: for
arithmetic, number; for geometry, point; for physics, force; for astronomy, space; for biology, life; for psychology, consciousness; for logic, thinking; for ethics, goodness; for esthetics, beauty; for music, consonance; for law, justice; for government, equality; for economics, values; for accounting, ...........?" (Littleton, 1953, p. 18)

4. See, for example, Staubus (1961), ARS No. 1 (Mounitz, 1961) and No. 3 (Mounitz and Sprouse, 1962). ARS No. 1 and No. 3 were rejected by the Accounting principles Board because the Board thought that these proposals were too radically different from the generally accepted accounting practice at that time. The same philosophy has, however, been succeeded by the FASB conceptual framework project.

5. The FASB is silent on this point. See the difference between FASB (1976) and FASB (1980).

6. It was in 1970 that the SEC ruled to include the funds statement in the set of financial statements (SEC, Accounting Series Release No. 117) and in 1971 that APB issued its opinion No. 19, asking that the statement of changes in financial position be deemed as a major financial statement.

7. Neither the concept of cash nor funds was included in the ten basic elements of financial statements.

8. See AAA (1954), and AAA (1957).

9. This is typical in the "double accounts system" balance sheet.

10. See, for example, Finney (1921, 1923) and Gregory (1928).

11. See, for example, Paton and Littleton (1940), p. 67 and AICPA, Accounting Research Bulletin, No. 9, pp. 68-69.

12. It is evident from the phrase "expenditure not charged to profit and loss".

13. See Appendix A.

15. See, for example, Anthony (1970) and Hawkins (1968). Anthony argued "It is not possible to define the whole balance sheet in anything other than vague terms. The AICPA definition of the balance sheet as a 'list of balances in the asset, liability, or net worth accounts'. A more meaningful statement is the following: the balance sheet shows the sources from which funds currently used to operate the business have been obtained (i.e., liabilities and owners' equity) and the types of property and property rights in which these funds are currently locked up (i.e., assets). The statement regards the balance sheet as essentially a report of management's stewardship; that is, what management has done with the funds entrusted to it" (p. 227). Hawkins adopted the funds flow view of the balance sheet and argued that the deferred income tax credit should be shown on the balance sheet because it shows the important source of corporate funds.

16. Carson writes, "In the source and application of funds view of the accounting process, the problem of periodic income determination, involving the matching of cost and revenue, becomes secondary" (Carson, 1949, p. 161).

17. Although Carson was aware of cash and the net short term monetary concept of funds as well as working capital, he thought that the working capital concept was the best at that time; "With the possible exception of the inclusion of inventories in working capital, there is little objection to considering working capital as funds" (Carson, 1949, p. 162). However, he changed his attitude from working capital to net monetary assets, (Carson, 1954) and then, finally, to cash (Carson, 1965) in relation to income determination.

18. When gains or losses on marketable securities are involved, these two concepts may create different results.
19. For the process of obtaining this equation, see Appendix B.

20. Maurice Moonitz was the first to propose this concept of funds. See Moonitz (1943).

21. Note that, in relation to the income determination, the term "current" should be interpreted in terms of operating activities, not in terms of "one year". See Herrick (1944).

22. For the history of the funds statement, see Rosen and DeCoster (1969).

23. There is an argument over whether the indirect method or direct method should be used in showing the FPO. Even though the relationship between an objective and a form of the funds statement is discussed, this does not necessarily mean that particular form (indirect method) of the funds statement should be used.

24. This examination was reproduced in Esquerre (1922).

25. See MaCarthy (1948).

26. For the discussions of the non-articulation view, see, for example, Rappaport (1971), Sorter (1974), Hendriksen (1977, pp. 134-135).

27. See Sprouse (1971). He compared three balance sheet views: the static funds statement view which corresponds to the Funds Flow view, the sheet of balance view which corresponds to the Revenue and Expense view, and the statement of financial position view which corresponds to the Asset and Liability view.
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