Statement of Financial Accounting Concepts No. 1

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Objectives of Financial Reporting by Business Enterprises

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Financial Accounting Standards Board
of the Financial Accounting Foundation
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CON 1: Objectives of Financial Reporting by Business Enterprises

CON 1 HIGHLIGHTS

[*Best understood in context of full Statement*]

- Financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions.

- The objectives of financial reporting are not immutable—they are affected by the economic, legal, political, and social environment in which financial reporting takes place.

- The objectives are also affected by the characteristics and limitations of the kind of information that financial reporting can provide.

  —The information pertains to business enterprises rather than to industries or the economy as a whole.

  —The information often results from approximate, rather than exact, measures.

  —The information largely reflects the financial effects of transactions and events that have already happened.

  —The information is but one source of information needed by those who make decisions about business enterprises.

  —The information is provided and used at a cost.

- The objectives in this Statement are those of general purpose external financial reporting by business enterprises.

  —The objectives stem primarily from the needs of external users who lack the authority to prescribe the information they want and must rely on information management communicates to them.

  —The objectives are directed toward the common interests of many users in the ability of an enterprise to generate favorable cash flows but are phrased using investment and credit decisions as a reference to give them a focus. The objectives are intended to be broad rather than narrow.

—The objectives pertain to financial reporting and are not restricted to financial statements.

- The objectives state that:

  —Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

  —Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. Since investors' and creditors' cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.

  —Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change its resources and claims to those resources.

- "Investors" and "creditors" are used broadly and include not only those who have or contemplate having a claim to enterprise resources but also those who advise or represent them.

- Although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

- The primary focus of financial reporting is information about earnings and its components.

- Information about enterprise earnings based on accrual accounting generally provides a better indication of an enterprise's present and continuing ability to generate favorable cash flows than information limited to the financial effects of cash receipts and payments.

- Financial reporting is expected to provide information about an enterprise's financial performance during a period and about how management of an enterprise has discharged its stewardship responsibility to owners.

- Financial accounting is not designed to measure directly the value of a business enterprise, but the information it provides may be helpful to those who wish to estimate its value.

- Investors, creditors, and others may use reported earnings and information about the elements of financial statements in various ways to assess the prospects for cash flows. They may wish, for example, to evaluate management's performance, estimate "earning power," predict future earnings, assess risk, or to confirm, change, or reject earlier predictions or assessments. Although financial reporting should provide basic information to aid them, they do their own evaluating, estimating, predicting, assessing, confirming, changing, or rejecting.

- Management knows more about the enterprise and its affairs than investors, creditors, or other "outsiders" and accordingly can often increase the usefulness of financial information by identifying certain events and circumstances and explaining their financial effects on the enterprise.

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Statements of Financial Accounting Concepts

This is the first in a series of Statements of Financial Accounting Concepts. The purpose of the series is to set forth fundamentals on which financial accounting and reporting standards will be based. More specifically, Statements of Financial Accounting Concepts are intended to establish the objectives and concepts that the Financial Accounting Standards Board will use in developing standards of financial accounting and reporting.

The Board itself is likely to be the major user and thus the most direct beneficiary of the guidance provided by the new series. However, knowledge of the objectives and concepts the Board uses should enable all who are affected by or interested in financial accounting standards to better understand the content and limitations of information provided by financial accounting and reporting, thereby furthering their ability to use that information effectively and enhancing confidence in financial accounting and reporting. That knowledge, if used with care, may also provide guidance in resolving new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements.

Unlike a Statement of Financial Accounting Standards, a Statement of Financial Accounting Concepts does not establish generally accepted accounting principles and therefore is not intended to invoke the application of Rule 203 of the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants (or successor rule or arrangement of similar scope and intent).[*] Like other pronouncements of the Board, a Statement of Financial Accounting Concepts may be amended, superseded, or withdrawn by appropriate action under the Board's *Rules of Procedure*.

The Board recognizes that in certain respects current generally accepted accounting principles may be inconsistent with those that may derive from the objectives and concepts set forth in this Statement and others in the series. In due course, the Board expects to reexamine its pronouncements, pronouncements of predecessor standard-setting bodies, and existing financial reporting practice in the light of newly enunciated objectives and concepts. In the meantime, a Statement of Financial Accounting Concepts does not (a) require a change in existing generally accepted accounting principles, (b) amend, modify, or interpret Statements of Financial Accounting Standards, Interpretations of the FASB, effective Opinions of the Accounting Principles Board, or effective Bulletins of the Committee on Accounting Procedure, or (c) justify either changing existing generally accepted accounting and reporting practices or interpreting the pronouncements listed in (b) based on personal interpretations of the objectives and concepts in the Statements of Financial Accounting Concepts.

To establish objectives and concepts will not, by itself, directly solve financial accounting and reporting problems. Rather, objectives and concepts are tools for solving problems. Moreover, although individual Statements of Financial Accounting Concepts may be issued serially, they will form a cohesive set of interrelated concepts and will often need to be used jointly.

The new series of Statements of Financial Accounting Concepts is intended and expected to serve the public interest within the context of the role of financial accounting and reporting in the economy—to provide evenhanded financial and other information that, together with information from other sources, facilitates efficient functioning of capital and other markets and otherwise assists in promoting efficient allocation of scarce resources in the economy.

This Statement contains no conclusions about matters expected to be covered in other Statements resulting from the Board's conceptual framework project, such as objectives of financial reporting by organizations other than business enterprises; elements of financial statements and their recognition, measurement, and display; capital maintenance; unit of measure; criteria for distinguishing information to be included in financial statements from that which should be provided by other means of financial reporting; and criteria for evaluating and selecting accounting information (qualitative characteristics).

INTRODUCTION AND BACKGROUND

1. This Statement establishes the objectives of general purpose external financial reporting by business enterprises. Its concentration on business enterprises is not intended to imply that the Board has concluded that the uses and objectives of financial reporting by other kinds of entities are, or should be, the same as or different from those of business enterprises. Those and related matters, including whether and, if so, how business enterprises and other organizations should be distinguished for the purpose of establishing objectives of and basic concepts underlying financial reporting, are issues in another phase of the Board's conceptual framework project.[1]

2. This Statement is the first of a planned series of publications in the Board's conceptual framework project. Later Statements are expected to cover the elements of financial statements and their recognition, measurement, and display as well as related matters such as capital maintenance, unit of measure, criteria for distinguishing information to be included in financial statements from that which should be provided by other means of financial reporting, and criteria for evaluating and selecting accounting information (qualitative characteristics). Accordingly, this Statement contains no conclusions about matters such as the identity, number, or form of financial statements or about the attributes to be measured [2] or the unit of measure to be used. Thus, although designation in the objectives of certain information as relevant has implications for communicating the information, the Statement should not be interpreted as implying a particular set of financial statements. Nor should the Statement be interpreted as suggesting that the relative merits of various attributes, such as historical cost/historical proceeds or current cost/current proceeds, have been resolved. Similarly, references in it to measures in units of money should not be interpreted as precluding the possibility of measures in constant dollars (units of money having constant purchasing power).

3. This Statement also does not specify financial accounting standards prescribing accounting procedures or disclosure practices for particular items or events; rather it describes concepts and relations that will underlie future financial accounting standards and practices and in due course serve as a basis for evaluating existing standards and practices. Its effect on financial reporting will be reflected primarily in Statements of Financial Accounting Standards. Until the FASB reexamines its pronouncements, pronouncements of predecessor standard-setting bodies, and existing financial reporting practices, pronouncements such as *APB Statement No. 4*, "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," or the *Accounting Terminology Bulletins* will continue to serve their intended purpose—to describe objectives and concepts underlying standards and practices existing before the issuance of this Statement.

4. This Statement includes a brief exposition of the reasons for the Board's conclusions.[3] It therefore includes no separate Appendix containing a basis for conclusions. Appendix A to this Statement contains background information for the Statement.

Financial Statements and Financial Reporting

5. The objectives in this Statement pertain to financial reporting and are not restricted to information communicated by financial statements. Although financial reporting and financial statements have essentially the same objectives, some useful information is better provided by financial statements and some is better provided, or can only be provided, by means of financial reporting other than financial statements. The following paragraphs briefly describe some major characteristics of financial reporting and financial statements and give some examples, but they draw no clear distinction between financial reporting and financial statements and leave extremely broad the scope of financial reporting. The Board will draw boundaries, as needed, in

other parts of the conceptual framework project or in financial accounting standards.

6. Financial statements are a central feature of financial reporting. They are a principal means of communicating accounting information to those outside an enterprise. Although financial statements may also contain information from sources other than accounting records, accounting systems are generally organized on the basis of the elements of financial statements (assets, liabilities, revenues, expenses, etc.) and provide the bulk of the information for financial statements. The financial statements now most frequently provided are (a) balance sheet or statement of financial position, (b) income or earnings statement, (c) statement of retained earnings, (d) statement of other changes in owners' or stockholders' equity, and (e) statement of changes in financial position (statement of sources and applications of funds). To list those examples from existing practice implies no conclusions about the identity, number, or form of financial statements because those matters are yet to be considered in the conceptual framework project (paragraph 2).

7. Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by the accounting system—that is, information about an enterprise's resources, obligations, earnings, etc. Management may communicate information to those outside an enterprise by means of financial reporting other than formal financial statements either because the information is required to be disclosed by authoritative pronouncement, regulatory rule, or custom or because management considers it useful to those outside the enterprise and discloses it voluntarily. Information communicated by means of financial reporting other than financial statements may take various forms and relate to various matters. Corporate annual reports, prospectuses, and annual reports filed with the Securities and Exchange Commission are common examples of reports that include financial statements, other financial information, and nonfinancial information. News releases, management's forecasts or other descriptions of its plans or expectations, and descriptions of an enterprise's social or environmental impact are examples of reports giving financial information other than financial statements or giving only nonfinancial information.

8. Financial statements are often audited by independent accountants for the purpose of enhancing confidence in their reliability. Some financial reporting by management outside the financial statements is audited, or is reviewed but not audited, by independent accountants or other experts, and some is provided by management without audit or review by persons outside the enterprise.

Environmental Context of Objectives

9. Financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions—for making reasoned choices among alternative uses of scarce resources in the conduct of business and economic activities. Thus, the objectives set forth stem largely from the needs of those for whom the information is intended,

which in turn depend significantly on the nature of the economic activities and decisions with which the users are involved. Accordingly, the objectives in this Statement are affected by the economic, legal, political, and social environment in the United States. The objectives are also affected by characteristics and limitations of the information that financial reporting can provide (paragraphs 17-23).

10. The United States has a highly developed exchange economy. Most goods and services are exchanged for money or claims to money instead of being consumed by their producers. Most goods and services have money prices, and cash (ready money, including currency, coins, and money on deposit) is prized because of what it can buy. Members of the society carry out their consumption, saving, and investment decisions by allocating their present and expected cash resources.

11. Production and marketing of goods and services often involve long, continuous, or intricate processes that require large amounts of capital, which in turn require substantial savings in the economy. Savings are often invested through a complex set of intermediaries which offer savers diverse types of ownership and creditor claims, many of which can be freely traded or otherwise converted to cash.

12. Most productive activity in the United States is carried on through investor-owned business enterprises, including many large corporations that buy, sell, and obtain financing in national or multinational markets. Since investor-owners are commonly more interested in returns from dividends and market price appreciation of their securities than in active participation in directing corporate affairs, directors and professional managers commonly control enterprise resources and decide how those resources are allocated in enterprise operations. Management is accountable to owner-investors, both directly and through an elected board of directors, for planning and controlling enterprise operations in their interests, including gaining or maintaining competitive advantage or parity in the markets in which the enterprise buys, sells, and obtains financing and considering and balancing various other, often competing interests, such as those of employees, customers, lenders, suppliers, and government.

13. Business enterprises raise capital for production and marketing activities not only from financial institutions and small groups of individuals but also from the public through issuing equity and debt securities that are widely traded in highly developed securities markets. Numerous, perhaps most, transactions in those markets are transfers from one investor or creditor to another with no part of the exchange price going to the issuing enterprise. But those transactions set the market prices for particular securities and thereby affect an enterprise's ability to attract investment funds and its cost of raising capital. Those having funds to invest normally assess the expected costs, expected returns, and expected risks of alternative investment opportunities. They attempt to balance expected risks and returns and generally invest in high risk ventures only if they expect commensurately high returns and will accept low expected returns only if expected risk is commensurately low. A business enterprise is unlikely to be able to compete successfully in the markets for lendable or investment funds unless lenders

and investors expect the enterprise to be able to sell its output at prices sufficiently in excess of its costs to enable them to expect a return from interest or dividends and market price appreciation commensurate with the risks they perceive. Thus, well-developed securities markets tend to allocate scarce resources to enterprises that use them efficiently and away from inefficient enterprises.

14. In the United States, productive resources are generally privately owned rather than government owned. Markets—which vary from those that are highly competitive, including many commodities and securities markets, to those that involve regulated monopolies, including markets for telephone service or electricity—are significant factors in resource allocation in the economy. However, government intervenes in the allocation process in many ways and for various purposes. For example, it intervenes directly by collecting taxes, borrowing, and spending for its purchases of goods and services for government operations and programs; by regulating business activities; or by paying subsidies. It intervenes less directly through broad tax, monetary, and fiscal policies. Government also has a broad interest in the impact of business enterprises on the community at large and may intervene to alter that impact. Many government interventions are expressly designed to work through market forces, but even government actions that are not so designed may significantly affect the balance of market forces.

15. Moreover, government is a major supplier of economic statistics and other economic information that are widely used by management, investors, and others interested in individual business enterprises and are commonly included in news reports and other statistics and analyses in ways that may broadly affect perceptions about business and economic matters. Although government statistics are primarily "macro" in nature (pertaining to the economy as a whole or to large segments of it) and do not generally disclose much about individual business enterprises, they are based to a considerable extent on information of the kind provided by financial reporting by individual business enterprises.

16. The effectiveness of individuals, enterprises, markets, and government in allocating scarce resources among competing uses is enhanced if those who make economic decisions have information that reflects the relative standing and performance of business enterprises to assist them in evaluating alternative courses of action and the expected returns, costs, and risks of each. The function of financial reporting is to provide information that is useful to those who make economic decisions about business enterprises and about investments in or loans to business enterprises. Independent auditors commonly examine or review financial statements and perhaps other information, and both those who provide and those who use that information often view an independent auditor's opinion as enhancing the reliability or credibility of the information.

Characteristics and Limitations of Information Provided

17. The objectives of financial reporting are affected not only by the environment in which

financial reporting takes place but also by the characteristics and limitations of the kind of information that financial reporting, and particularly financial statements, can provide. The information is to a significant extent financial information based on approximate measures of the financial effects on individual business enterprises of transactions and events that have already happened; it cannot be provided or used without incurring a cost.

18. The information provided by financial reporting is primarily financial in nature—it is generally quantified and expressed in units of money. Information that is to be formally incorporated in financial statements must be quantifiable in units of money. Other information can be disclosed in financial statements (including notes) or by other means, but financial statements involve adding, subtracting, multiplying, and dividing numbers depicting economic things and events and require a common denominator. The numbers are usually exchange prices or amounts derived from exchange prices. Quantified nonfinancial information (such as number of employees or units of product produced or sold) and nonquantified information (such as descriptions of operations or explanations of policies) that are reported normally relate to or underlie the financial information. Financial information is often limited by the need to measure in units of money or by constraints inherent in procedures, such as verification, that are commonly used to enhance the reliability or objectivity of the information.

19. The information provided by financial reporting pertains to individual business enterprises, which may comprise two or more affiliated entities, rather than to industries or an economy as a whole or to members of society as consumers. Financial reporting may provide information about industries and economies in which an enterprise operates but usually only to the extent the information is relevant to understanding the enterprise. It does not attempt to measure the degree to which the consumption of wealth satisfies consumers' wants. Since business enterprises are producers and distributors of scarce resources, financial reporting bears on the allocation of economic resources to producing and distributing activities and focuses on the creation of, use of, and rights to wealth and the sharing of risks associated with wealth.

20. The information provided by financial reporting often results from approximate, rather than exact, measures. The measures commonly involve numerous estimates, classifications, summarizations, judgments, and allocations. The outcome of economic activity in a dynamic economy is uncertain and results from combinations of many factors. Thus, despite the aura of precision that may seem to surround financial reporting in general and financial statements in particular, with few exceptions the measures are approximations, which may be based on rules and conventions, rather than exact amounts.

21. The information provided by financial reporting largely reflects the financial effects of transactions and events that have already happened. Management may communicate information about its plans or projections, but financial statements and most other financial reporting are historical. For example, the acquisition price of land, the current market price of a marketable equity security, and the current replacement price of an inventory are all historical data—no future prices are involved. Estimates resting on expectations of the future are often

needed in financial reporting, but their major use, especially of those formally incorporated in financial statements, is to measure financial effects of past transactions or events or the present status of an asset or liability. For example, if depreciable assets are accounted for at cost, estimates of useful lives are needed to determine current depreciation and the current undepreciated cost of the asset. Even the discounted amount of future cash payments required by a long-term debt contract is, as the name implies, a "present value" of the liability. The information is largely historical, but those who use it may try to predict the future or may use the information to confirm or reject their previous predictions. To provide information about the past as an aid in assessing the future is not to imply that the future can be predicted merely by extrapolating past trends or relationships. Users of the information need to assess the possible or probable impact of factors that may cause change and form their own expectations about the future and its relation to the past.

22. Financial reporting is but one source of information needed by those who make economic decisions about business enterprises. Business enterprises and those who have economic interests in them are affected by numerous factors that interact with each other in complex ways. Those who use financial information for business and economic decisions need to combine information provided by financial reporting with pertinent information from other sources, for example, information about general economic conditions or expectations, political events and political climate, or industry outlook.

23. The information provided by financial reporting involves a cost to provide and use, and generally the benefits of information provided should be expected to at least equal the cost involved. The cost includes not only the resources directly expended to provide the information but may also include adverse effects on an enterprise or its stockholders from disclosing it. For example, comments about a pending lawsuit may jeopardize a successful defense, or comments about future plans may jeopardize a competitive advantage. The collective time needed to understand and use information is also a cost. Sometimes a disparity between costs and benefits is obvious. However, the benefits from financial information are usually difficult or impossible to measure objectively, and the costs often are; different persons will honestly disagree about whether the benefits of the information justify its costs.

Potential Users and Their Interests

24. Many people base economic decisions on their relationships to and knowledge about business enterprises and thus are potentially interested in the information provided by financial reporting. Among the potential users are owners, lenders, suppliers, potential investors and creditors, employees, management, directors, customers, financial analysts and advisors, brokers, underwriters, stock exchanges, lawyers, economists, taxing authorities, regulatory authorities, legislators, financial press and reporting agencies, labor unions, trade associations, business researchers, teachers and students, and the public. Members and potential members of some groups—such as owners, creditors, and employees—have or contemplate having direct economic interests in particular business enterprises. Managers and directors, who are charged

with managing the enterprise in the interest of owners (paragraph 12), also have a direct interest. Members of other groups—such as financial analysts and advisors, regulatory authorities, and labor unions—have derived or indirect interests because they advise or represent those who have or contemplate having direct interests.

25. Potential users of financial information most directly concerned with a particular business enterprise are generally interested in its ability to generate favorable cash flows because their decisions relate to amounts, timing, and uncertainties of expected cash flows. To investors, lenders, suppliers, and employees, a business enterprise is a source of cash in the form of dividends or interest and perhaps appreciated market prices, repayment of borrowing, payment for goods or services, or salaries or wages. They invest cash, goods, or services in an enterprise and expect to obtain sufficient cash in return to make the investment worthwhile. They are directly concerned with the ability of the enterprise to generate favorable cash flows and may also be concerned with how the market's perception of that ability affects the relative prices of its securities. To customers, a business enterprise is a source of goods or services, but only by obtaining sufficient cash to pay for the resources it uses and to meet its other obligations can the enterprise provide those goods or services. To managers, the cash flows of a business enterprise are a significant part of their management responsibilities, including their accountability to directors and owners. Many, if not most, of their decisions have cash flow consequences for the enterprise. Thus, investors, creditors, employees, customers, and managers significantly share a common interest in an enterprise's ability to generate favorable cash flows. Other potential users of financial information share the same interest, derived from investors, creditors, employees, customers, or managers whom they advise or represent or derived from an interest in how those groups (and especially stockholders) are faring.

26. Some of the potential users listed in paragraph 24 may have specialized needs but also have the power to obtain information needed. For example, both the information needed to enforce tax laws and regulations and the information needed to set rates for public utilities are specialized needs. However, although both taxing authorities and rate-making bodies often use the information in financial statements for their purposes, both also have statutory authority to require the specific information they need to fulfill their functions and do not need to rely on information provided to other groups. Some investors and creditors or potential investors and creditors may also be able to require a business enterprise to provide specified information to meet a particular need—for example, a bank or insurance company negotiating with an enterprise for a large loan or private placement of securities can often obtain desired information by making the information a condition for completing the transaction.

27. Except for management, and to some extent directors, the potential users listed in paragraph 24 are commonly described as "external users," and accounting and reporting are sometimes divided conventionally into internal and external parts. That broad distinction more nearly suits the purposes of this Statement than does another common conventional distinction—that between managerial or management accounting (which is designed to assist management decision making, planning, and control at the various administrative levels of an

enterprise) and financial accounting (which is concerned with accounting for an enterprise's assets, liabilities, revenues, expenses, earnings, etc.) [4] because management uses information provided by both management accounting and financial accounting. Management needs, in addition to financial accounting information, a great deal of management accounting information to carry out its responsibilities in planning and controlling operations. Much of that information relates to particular decisions or to particular cost or profit centers and is often provided in more detail than is considered necessary or appropriate for external financial reporting, even though the same accounting system normally accumulates, processes, and provides the information whether it is called managerial or financial or internal or external. Directors usually have access to at least some information available to management that is normally not provided outside an enterprise. Since management accounting is internal to an enterprise, it can usually be tailored to meet management's informational needs and is beyond the scope of this Statement.

General Purpose External Financial Reporting

28. The objectives in this Statement are those of general purpose external financial reporting by business enterprises. The objectives stem primarily from the informational needs of external users who lack the authority to prescribe the financial information they want from an enterprise and therefore must use the information that management communicates to them. Those potential users include most of the groups listed in paragraph 24.

29. Financial reporting has both an internal and an external aspect, and this Statement focuses on the external aspect. Management is as interested in information about assets, liabilities, earnings, and related elements as external users and, among its other requirements, generally needs the same kinds of information about those elements as external users (paragraph 25). Thus, management is a major user of the same information that is provided by external financial reporting. However, management's primary role in external financial reporting is that of communicating information for use by others. For that reason, it has a direct interest in the cost, adequacy, and understandability of external financial reporting.

30. General purpose external financial reporting is directed toward the common interest of various potential users in the ability of an enterprise to generate favorable cash flows (paragraph 25). Thus, the objectives in this Statement are focused on information for investment and credit decisions for reasons that are largely pragmatic, not to narrow their scope. The objectives need a focus to avoid being vague or highly abstract. Investors and creditors and their advisors are the most obvious prominent external groups who use the information provided by financial reporting and who generally lack the authority to prescribe the information they want. Their decisions and their uses of information have been studied and described to a much greater extent than those of other external groups, and their decisions significantly affect the allocation of resources in the economy. In addition, information provided to meet investors' and creditors' needs is likely to be generally useful to members of other groups who are interested in essentially the same financial aspects of business enterprises as investors and creditors.

31. For convenience, *financial reporting* is used in place of *general purpose external financial reporting by business enterprises* in the remainder of this Statement.

OBJECTIVES OF FINANCIAL REPORTING

32. The following objectives of financial reporting flow from the preceding paragraphs and proceed from the more general to the more specific. The objectives begin with a broad focus on information that is useful in investment and credit decisions; then narrow that focus to investors' and creditors' primary interest in the prospects of receiving cash from their investments in or loans to business enterprises and the relation of those prospects to the enterprise's prospects; and finally focus on information about an enterprise's economic resources, the claims to those resources, and changes in them, including measures of the enterprise's performance, that is useful in assessing the enterprise's cash flow prospects. The reasons for focusing the objectives of financial reporting primarily on investment, credit, and similar decisions are given in paragraph 30. That focus and wording do not mean that the objectives apply only to investors and creditors and exclude everyone else. To the contrary, information that satisfies the objectives should be useful to all who are interested in an enterprise's future capacity to pay or in how investors or creditors are faring.

33. The objectives are those of financial reporting rather than goals for investors, creditors, or others who use the information or goals for the economy or society as a whole. The role of financial reporting in the economy is to provide information that is useful in making business and economic decisions, not to determine what those decisions should be. For example, saving and investing in productive resources (capital formation) are generally considered to be prerequisite to increasing the standard of living in an economy. To the extent that financial reporting provides information that helps identify relatively efficient and inefficient users of resources, aids in assessing relative returns and risks of investment opportunities, or otherwise assists in promoting efficient functioning of capital and other markets, it helps to create a favorable environment for capital formation decisions. However, investors, creditors, and others make those decisions, and it is not a function of financial reporting to try to determine or influence the outcomes of those decisions. The role of financial reporting requires it to provide evenhanded, neutral, or unbiased information. Thus, for example, information that indicates that a relatively inefficient user of resources is efficient or that investing in a particular enterprise involves less risk than it does and information that is directed toward a particular goal, such as encouraging the reallocation of resources in favor of a particular segment of the economy, are likely to fail to serve the broader objectives that financial reporting is intended to serve.

Information Useful in Investment and Credit Decisions

34. Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar

decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

35. This Statement uses the terms investors and creditors broadly. The terms include both those who deal directly with an enterprise and those who deal through intermediaries, both those who buy securities from other investors or creditors and those who buy newly issued securities from the enterprise or an underwriter, both those who commit funds for long periods and those who trade frequently, both those who desire safety of investment and those who are willing to accept risk to obtain high rates of return, both individuals and specialized institutions. The major groups of investors are equity securityholders and debt securityholders. The major groups of creditors are suppliers of goods and services who extend credit, customers and employees with claims, lending institutions, individual lenders, and debt securityholders.[5] The terms also may comprehend security analysts and advisors, brokers, lawyers, regulatory agencies, and others who advise or represent the interests of investors and creditors or who otherwise are interested in how investors and creditors are faring.

36. Individual investors, creditors, or other potential users of financial information understand to varying degrees the business and economic environment, business activities, securities markets, and related matters. Their understanding of financial information and the way and extent to which they use and rely on it also may vary greatly. Financial information is a tool and, like most tools, cannot be of much direct help to those who are unable or unwilling to use it or who misuse it. Its use can be learned, however, and financial reporting should provide information that can be used by all—nonprofessionals as well as professionals—who are willing to learn to use it properly. Efforts may be needed to increase the understandability of financial information. Cost-benefit considerations may indicate that information understood or used by only a few should not be provided. Conversely, financial reporting should not exclude relevant information merely because it is difficult for some to understand or because some investors or creditors choose not to use it.

Information Useful in Assessing Cash Flow Prospects

37. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. The prospects for those cash receipts are affected by an enterprise's ability to generate enough cash to meet its obligations when due and its other cash operating needs, to reinvest in operations, and to pay cash dividends and may also be affected by perceptions of investors and creditors generally about that ability, which affect market prices of the enterprise's securities. Thus, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.[6]

38. People engage in investing, lending, and similar activities primarily to increase their cash resources. The ultimate test of success (or failure) of those activities is the extent to which they return more (or less) cash than they cost.[7] A successful investor or creditor receives not only a return *of* investment but also a return *on* that investment (cash, goods, or services) commensurate with the risk involved. Moreover, investment, credit, and similar decisions normally involve choices between present cash and future cash—for example, the choice between the price of a security that can be bought or sold or the amount of a loan and rights to expected future cash receipts from dividends or interest and proceeds from resale or repayment. Investors, creditors, and others need information to help them form rational expectations about those prospective cash receipts and assess the risk that the amounts or timing of the receipts may differ from expectations, including information that helps them assess prospective cash flows to the enterprise in which they have invested or to which they have loaned funds.

39. Business enterprises, like investors and creditors, invest cash in noncash resources to earn more cash. The test of success (or failure) of the operations of an enterprise is the extent to which the cash returned exceeds (or is less than) the cash spent (invested) over the long run (footnote 7).[8] A successful enterprise receives not only a return *of* its investment but also a satisfactory return *on* that investment. The market's assessment of an enterprise's expected success in generating favorable cash flows affects the relative market prices of its securities, although the level of market prices of securities is affected by numerous factors—such as general economic conditions, interest rates, market psychology, and the like—that are not related to particular enterprises. Thus, since an enterprise's ability to generate favorable cash flows affects both its ability to pay dividends and interest and the market prices of its securities, expected cash flows to investors and creditors are related to expected cash flows to the enterprise in which they have invested or to which they have loaned funds.

Information about Enterprise Resources, Claims to Those Resources, and Changes in Them

40. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources.[9]

Economic Resources, Obligations, and Owners' Equity

41. Financial reporting should provide information about an enterprise's economic resources, obligations, and owners' equity. That information helps investors, creditors, and others identify the enterprise's financial strengths and weaknesses and assess its liquidity and solvency. Information about resources, obligations, and owners' equity also provides a basis for investors, creditors, and others to evaluate information about the enterprise's performance during a period (paragraphs 42-48). Moreover, it provides direct indications of the cash flow potentials of some resources and of the cash needed to satisfy many, if not most, obligations. That is, some of an

enterprise's resources are direct sources of cash to the enterprise, many obligations are direct causes of cash payments by the enterprise, and reasonably reliable measures of future net cash inflows or future net cash outflows are often possible for those resources and obligations. Many cash flows cannot be identified with individual resources (or some obligations), however, because they are the joint result of combining various resources in the enterprise's operations. Indirect measures of cash flow potential are widely considered necessary or desirable, both for particular resources and for enterprises as a whole. That information may help those who desire to estimate the value of a business enterprise, but financial accounting is not designed to measure directly the value of an enterprise.

Enterprise Performance and Earnings

42. Financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.[10]

43. The primary focus of financial reporting is information about an enterprise's performance provided by measures of earnings and its components. Investors, creditors, and others who are concerned with assessing the prospects for enterprise net cash inflows are especially interested in that information. Their interest in an enterprise's future cash flows and its ability to generate favorable cash flows leads primarily to an interest in information about its earnings rather than information directly about its cash flows. Financial statements that show only cash receipts and payments during a short period, such as a year, cannot adequately indicate whether or not an enterprise's performance is successful.

44. Information about enterprise earnings and its components measured by accrual accounting generally provides a better indication of enterprise performance than information about current cash receipts and payments. Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for an enterprise in the periods in which those transactions, events, and circumstances occur rather than only in the periods in which cash is received or paid by the enterprise. Accrual accounting is concerned with the process by which cash expended on resources and activities is returned as more (or perhaps less) cash to the enterprise, not just with the beginning and end of that process. It recognizes that the buying, producing, selling, and other operations of an enterprise during a period, as well as other events that affect enterprise performance, often do not coincide with the cash receipts and payments of the period.

45. Periodic earnings measurement involves relating to periods the benefits from and the costs [11] of operations and other transactions, events, and circumstances that affect an enterprise. Although business enterprises invest cash to obtain a return *on* investment as well as a return *of* investment, the investment of cash and its return often do not occur in the same period. Modern

business activities are largely conducted on credit and often involve long and complex financial arrangements or production or marketing processes. An enterprise's receivables and payables, inventory, investments, property, plant, equipment, and other noncash resources and obligations are the links between its operations and other transactions, events, and circumstances that affect it and its cash receipts and outlays. For example, labor is often used by an enterprise before it is paid for, requiring that salaries and wages payable be accrued to recognize the obligation and measure the effects on earnings in the period the labor is used rather than when the payroll checks are issued. Conversely, resources such as raw materials and equipment may be paid for by an enterprise in a period that does not coincide with their use, requiring that the resources on hand be recognized and that the effect on earnings be deferred until the periods the resources are used. Similarly, receivables and the related effects on earnings must often be accrued before the related cash is received, or obligations must be recognized when cash is received and the effects on earnings must be identified with the periods in which goods or services are provided. The goal of accrual and deferral of benefits and sacrifices is to relate the accomplishments and the effects so that reported earnings measures an enterprise's performance during a period instead of merely listing its cash receipts and outlays.[12]

46. Earnings and its components relate to an individual enterprise during a particular period. Over the life of an enterprise (or other very long period), total reported earnings equals the net cash receipts excluding those from capital changes (ignoring changes in value of money noted in footnote 7), but that relationship between earnings and cash flows rarely, if ever, holds for periods as short as a year. The major difference between periodic earnings measured by accrual accounting and statements of cash receipts and outlays is timing of recognition of the components of earnings.

47. Investors, creditors, and others often use reported earnings and information about the components of earnings in various ways and for various purposes in assessing their prospects for cash flows from investments in or loans to an enterprise. For example, they may use earnings information to help them (a) evaluate management's performance, (b) estimate "earning power" or other amounts they perceive as "representative" of long-term earning ability of an enterprise, (c) predict future earnings, or (d) assess the risk of investing in or lending to an enterprise. They may use the information to confirm, reassure themselves about, or reject or change their own or others' earlier predictions or assessments. Measures of earnings and information about earnings disclosed by financial reporting should, to the extent possible, be useful for those and similar uses and purposes.

48. However, accrual accounting provides measures of earnings rather than evaluations of management's performance, estimates of "earning power," predictions of earnings, assessments of risk, or confirmations or rejections of predictions or assessments. Investors, creditors, and other users of the information do their own evaluating, estimating, predicting, assessing, confirming, or rejecting. For example, procedures such as averaging or normalizing reported earnings for several periods and ignoring or averaging out the financial effects of "nonrepresentative" transactions and events are commonly used in estimating "earning power."

However, both the concept of "earning power" and the techniques for estimating it are part of financial analysis and are beyond the scope of financial reporting.

Liquidity, Solvency, and Funds Flows

49. Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency. For example, although reports of an enterprise's cash receipts and cash outlays during a period are generally less useful than earnings information for measuring enterprise performance during a period and for assessing an enterprise's ability to generate favorable cash flows (paragraphs 42-46), information about cash flows or other funds flows may be useful in understanding the operations of an enterprise, evaluating its financing activities, assessing its liquidity or solvency, or interpreting earnings information provided. Information about earnings and economic resources, obligations, and owners' equity may also be useful in assessing an enterprise's liquidity or solvency.

Management Stewardship and Performance

50. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. Management of an enterprise is periodically accountable to the owners not only for the custody and safekeeping of enterprise resources but also for their efficient and profitable use and for protecting them to the extent possible from unfavorable economic impacts of factors in the economy such as inflation or deflation and technological and social changes. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general. Society may also impose broad or specific responsibilities on enterprises and their managements.

51. Earnings information is commonly the focus for assessing management's stewardship or accountability. Management, owners, and others emphasize enterprise performance or profitability in describing how management has discharged its stewardship accountability. A central question for owners, managers, potential investors, the public, and government is how an enterprise and its owners are faring. Since earnings and its components for a single period are often an insufficient basis for assessing management's stewardship, owners and others may estimate "earning power" or other average they consider "representative" of long-term performance. As noted in paragraph 48, however, accrual accounting measures earnings for a period rather than "earning power" or other financial analysis concepts.

52. Financial reporting should provide information that is useful to managers and directors in making decisions in the interests of owners. Although this Statement is concerned primarily with providing information to external users, managers and directors are responsible to owners (and other investors) for enterprise performance as reflected by financial reporting and they are judged at least to some extent on the enterprise performance reported. Thus, how owners have

fared during a period is of equal concern to managers and owners, and information provided should be useful to both in meeting their common goal.

53. Financial reporting, and especially financial statements, usually cannot and does not separate management performance from enterprise performance. Business enterprises are highly complex institutions, and their production and marketing processes are often long and intricate. Enterprise successes and failures are the result of the interaction of numerous factors. Management ability and performance are contributing factors, but so are events and circumstances that are often beyond the control of management, such as general economic conditions, supply and demand characteristics of enterprise inputs and outputs, price changes, and fortuitous events and circumstances. What happens to a business enterprise is usually so much a joint result of a complex interaction of many factors that neither accounting nor other statistical analysis can discern with reasonable accuracy the degree to which management, or any other factor, affected the joint result. Actions of past managements affect current periods' earnings, and actions of current management affect future periods' earnings. Financial reporting provides information about an enterprise during a period when it was under the direction of a particular management but does not directly provide information about that management's performance. The information is therefore limited for purposes of assessing management performance apart from enterprise performance.

Management Explanations and Interpretations

54. Financial reporting should include explanations and interpretations to help users understand financial information provided. For example, the usefulness of financial information as an aid to investors, creditors, and others in forming expectations about a business enterprise may be enhanced by management's explanations of the information. Management knows more about the enterprise and its affairs than investors, creditors, or other "outsiders" and can often increase the usefulness of financial information by identifying certain transactions, other events, and circumstances that affect the enterprise and explaining their financial impact on it. In addition, dividing continuous operations into accounting periods is a convention and may have arbitrary effects. Management can aid investors, creditors, and others in using financial information by identifying arbitrary results caused by separating periods, explaining why the effect is arbitrary, and describing its effect on reported information. Moreover, financial reporting often provides information that depends on, or is affected by, management's estimates and judgment. Investors, creditors, and others are aided in evaluating estimates and judgmental information by explanations of underlying assumptions or methods used, including disclosure of significant uncertainties about principal underlying assumptions or estimates. Financial reporting may, of course, provide information in addition to that specified by financial accounting standards, regulatory rules, or custom.

THE CONCEPTUAL FRAMEWORK: A PERSPECTIVE

55. Paragraphs 40-54 focus the objectives of financial reporting by business enterprises on information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events, and circumstances that change resources and claims to them. The paragraphs emphasize information about an enterprise's performance provided by measures of earnings and its components and also broadly describe other kinds of information that financial reporting should provide. The objectives lead to, but leave unanswered, questions such as the identity, number, and form of financial statements; elements of financial statements and their recognition, measurement, and display; information that should be provided by other means of financial reporting; and meanings and balancing or trading-off of relevance, reliability, and other criteria for evaluating and selecting accounting information (qualitative characteristics). Those matters are, as noted in paragraph 2, topics of other Statements that are expected to follow this Statement on objectives.

56. Financial statements are the basic means of communicating the information described in paragraphs 40-54 to those who use it. The elements of financial statements provide ". . .information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources" (paragraph 40), including ". . .information about an enterprise's performance provided by measures of earnings and its components" (paragraph 43). Thus, the next phase of the conceptual framework project pertains to the elements of financial statements.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Oscar S. Gellein
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix A: BACKGROUND INFORMATION

57. The need for a conceptual framework for financial accounting and reporting, beginning with consideration of the objectives of financial reporting, is generally recognized. The Accounting Principles Board issued *APB Statement No. 4*, "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," in 1970. When the Financial Accounting Standards Board came into existence, the Study Group on the Objectives of Financial Statements was at work, and its report, "Objectives of Financial Statements," was published in October 1973 by the American Institute of Certified Public Accountants.

58. The Financial Accounting Standards Board issued a Discussion Memorandum, "Conceptual Framework for Accounting and Reporting: Consideration of the Report of the Study Group on the Objectives of Financial Statements," dated June 6, 1974 and held a public hearing on September 23 and 24, 1974 on the objectives of financial statements. The Discussion Memorandum and the hearing were based primarily on the *Report of the Study Group on the Objectives of Financial Statements*. The Board received 95 written communications responding to the Discussion Memorandum, and 20 parties presented their views orally and answered Board members' questions at the hearing.

59. On December 2, 1976, the Board issued three documents:

Tentative Conclusions on Objectives of Financial Statements of Business Enterprises,

FASB Discussion Memorandum, "Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement," and

Scope and Implications of the Conceptual Framework Project.

The same task force, with only one membership change, provided counsel in preparing both Discussion Memoranda. Eleven persons from academe, the financial community, industry, and public accounting served on the task force while the Discussion Memoranda were written.

60. The Board considered the 12 objectives of financial statements in the Study Group Report but has not attempted to reach conclusions on some of them—for example, reporting current value and changes in current value, providing a statement of financial activities, providing financial forecasts, determining the objectives of financial statements for governmental and not-for-profit organizations, and reporting enterprise activities affecting society. Some issues about reporting current values and changes in current values were discussed in the Discussion Memorandum, "Elements of Financial Statements and Their Measurement," and the Board has a project on supplementary disclosures of the effects of changing prices on business enterprises (paragraph 61). The Board also has a project on objectives of financial reporting by organizations other than business enterprises (footnote 1). The other matters may be dealt with

in later phases of the conceptual framework project.

61. The Board held public hearings (a) August 1 and 2, 1977 on the *Tentative Conclusions on Objectives of Financial Statements* and Chapters 1-5 of the Discussion Memorandum concerning definitions of the elements of financial statements and (b) January 16-18, 1978 on the remaining chapters of the Discussion Memorandum concerning capital maintenance or cost recovery, qualities of useful financial information ("qualitative characteristics"), and measurement of the elements of financial statements.

62. The Board received 283 written communications on the subject of the August 1977 hearing, of which 214 commented on the objectives and 221 commented on the elements, and 27 parties presented their views orally and answered Board members' questions at the hearing. The Board issued an Exposure Draft of a proposed Statement of Financial Accounting Concepts on "Objectives of Financial Reporting and Elements of Financial Statements of Business Enterprises," dated December 29, 1977 and received 135 letters of comment.

63. The major difference between this Statement and the Exposure Draft is the scope of the subject matter. "Elements of financial statements of business enterprises" and the brief comments on "qualitative characteristics" (paragraphs 41-66 and 69-75, respectively, of the Exposure Draft) have been omitted to be the subjects of separate exposure drafts. Other significant changes are (a) the "Highlights" preceding the text, (b) the subheadings in the third objective (paragraphs 40-54), and (c) reorganization of the "Introduction and Background" paragraphs, including the position of "characteristics and limitations of information provided" in the forepart of the Statement.

Footnotes

CON1, Footnote *-- Rule 203 prohibits a member of the American Institute of Certified Public Accountants from expressing an opinion that financial statements conform with generally accepted accounting principles if those statements contain a material departure from an accounting principle promulgated by the Financial Accounting Standards Board, unless the member can demonstrate that because of unusual circumstances the financial statements otherwise would have been misleading.

CON1, Footnote 1--In August 1977, the Board announced its sponsorship of a research study on the objectives and basic concepts underlying financial reporting by organizations other than business enterprises. The Board published the research report, *Financial Accounting in Nonbusiness Organizations: An Exploratory Study of Conceptual Issues*, by Robert N. Anthony, in May 1978. It issued a *Discussion Memorandum*, "Objectives of Financial Reporting by Nonbusiness Organizations," in June 1978 and held public hearings in October and November 1978.

CON1, Footnote 2--"Attributes to be measured" refers to the traits or aspects of an element to be quantified or measured, such as historical cost/historical proceeds, current cost/current proceeds, etc. Attribute is a narrower concept than measurement, which includes not only identifying the attribute to be measured but also selecting a scale of measurement (for example, units of money or units of constant purchasing power). "Property" is commonly used in the sciences to describe the trait or aspect of an object being measured, such as the length of a table or the weight of a stone. But "property" may be confused with land and buildings in financial reporting contexts, and "attribute" has become common in accounting literature and is used in this Statement.

CON1, Footnote 3--The Board has previously provided a more detailed discussion of the environment of financial reporting and the basis underlying the Board's conclusions on objectives of financial reporting by business enterprises in Chapters 1-3 of *Tentative Conclusions on Objectives of Financial Statements of Business Enterprises* (Stamford, CT: Financial Accounting Standards Board, December 2, 1976). The Board may reissue pertinent parts of that discussion, and perhaps other related material, in a more permanent publication.

CON1, Footnote 4--That distinction between managerial and financial accounting is made, for example, by Eric L. Kohler, *A Dictionary for Accountants*, 5th ed. (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1975), pp. 208 and 303, and by Sidney Davidson, James S. Schindler, Clyde P. Stickney, and Roman L. Weil, *Accounting: The Language of Business*, 3rd ed. (Glen Ridge, NJ: Thomas Horton and Daughters, Inc., 1977), pp. 24 and 34.

CON1, Footnote 5--Debt securityholders are included in both groups because they are investors as that term is commonly used as well as creditors by contract and usual legal definition.

Moreover, it is often convenient to refer to them as investors without making a precise distinction between "investors in debt securities" and "investors in equity securities." That distinction is made if it is significant.

CON1, Footnote 6--Several respondents to the Exposure Draft, "Objectives of Financial Reporting and Elements of Financial Statements of Business Enterprises," interpreted this objective as requiring "cash flow information," "current value information," or "management forecast information." However, the objective focuses on the purpose for which information provided should be useful--emphasizing the importance of cash to people and the activities they use to increase cash inflows that also help increase the productive resources and outputs of goods and services in an economy--rather than the kinds of information that may be useful for that purpose. The objective neither requires nor prohibits "cash flow information," "current value information," "management forecast information," or any other specific information. Conclusions about "current value information" and "management forecast information" are beyond the scope of this Statement. Paragraphs 42-44 note that information about cash receipts and disbursements is not usually considered to be the most useful information for the purposes described in this objective.

CON1, Footnote 7--Questions of measurement scale and unit of measure are beyond the scope of this Statement (paragraph 2). Therefore, the description in paragraphs 38, 39, and others ignore, for example, that a dollar of cash received as dividends, interest, or proceeds from resale or repayment is not necessarily equal in purchasing power to a dollar invested or loaned earlier, a dollar of cash collected from customers is not necessarily equal in purchasing power to a dollar spent earlier, and a dollar of cash paid to a creditor is not necessarily equal in purchasing power to a dollar received earlier.

CON1, Footnote 8--Descriptions of operations of business enterprises commonly describe a cycle that begins with cash outlays and ends with cash receipts. That description is not only straightforward and convenient but also generally fits manufacturing, merchandising, financial, and service enterprises whose operations comprise primarily activities such as acquiring goods and services, increasing their value by adding time, place, or form utility, selling them, and collecting the selling price. Cash receipts may precede cash payments, however, and commonly do in the operations of some service and financial enterprises. The order of cash flows does not affect the basic nature of operations but may comp

CON1, Footnote 9--Economic resources, claims to those resources, changes in resources and claims, and the elements that represent them in financial statements are the subject of the next phase in the Board's conceptual framework project on elements of financial statements of business

CON1, Footnote 10--Investors and creditors ordinarily invest in or lend to enterprises that they expect to continue in operation--an expectation that is familiar to accountants as "the going concern" assumption. Information about the past is usually less useful in assessing prospects for an enterprise's future if the enterprise is in liquidation or is expected to enter liquidation. Then, emphasis shifts from performance to liquidation of the enterprise's resources and obligations. The objectives of financial reporting do not necessarily change if an enterprise shifts from expected operation to expected liquidation, but the information that is relevant to those objectives, including measures of elements of financial statements, ma

CON1, Footnote 11--"Cost" is the sacrifice incurred in economic activities--that which is given up or foregone to consume, to save, to exchange, to produce, etc. For example, the value of cash or other resources given up (or the present value of an obligation incurred) in exchange for a resource is the cost of the resource acquired. Similarly, the expiration of future benefits caused by using a resource in production is the cost of using it.

CON1, Footnote 12--The process described in this paragraph is commonly called the "matching of costs and revenues," and "matching" is a significant part of it, though not the whole. "Matching" is one of the subjects of the next phase in the conceptual framework project on elements of financial statements.