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# Accounting and the Truth of Earnings Reports: Philosophical Considerations

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**ABSTRACT** This essay investigates the philosophical nature of accounting reports of earnings. Standard setters' authoritative pronouncements [conceptual frameworks, GAAP, EITFs, etc.] hold to the realist philosophical view that true earnings reports are ex post representations of some ex ante out-there, preexisting, extralinguistic real economic increase in the enterprise's wealth. Contra this view, in practice financial accounting executives, in league with investment analysts, routinely engage in the earnings management and manipulation in order to satisfy the capital market's insatiable demands for earnings levels which will support and enhance the enterprise's stock market price.

The essay considers this state of affairs from Harold Frankfurt's [2005, 2006] truth, lies, and "bullshit" treatise. It sees earnings reports as "short of lies", and so the accountants can only be faulted for their indifference to *the* truth and for giving the impression that they are trying to present the truth. A poststructuralist philosophical perspective, however, problematizes this conclusion on the basis that accounting language is not a transparent medium but rather is the material used to manufacture accounting "truths". It sees accounting "truths" as contingent upon linguistic doctrinal accounting discourses currently ceded place of privilege by standard setters and upon the subjective considerations of accountants when they produce reports of earnings. The essay concludes that both Frankfurt's perspective and that of poststructuralist philosophers can provide valuable insights into this process.



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**Accounting and the Truth of Earnings Reports: Philosophical Considerations**

**Part I**

## Introduction

The question of truth for society "runs through practically every area of inquiry … and has invaded the general culture" [Nagel, 1997, p. 3]. The question of the truth of accounting reports of earnings is no less urgent given the importance of such reports for the functioning of global financial and commercial capitalism. This is by no means a trivial concern. It could even be said that reports of earnings act as a major social bonding agent in today's fragile global social, economic and financial capitalism. This paper reflects on the philosophical truth nature of today's accounting reports of earnings in light of current standard setters pronouncements and the widespread practice of earnings management and manipulation in contemporary society.

The issues surrounding "earnings management and manipulation" have been receiving a great deal of attention recently around the globe by accounting researchers and the popular press alike, not least due to the recent flood of accounting so-called scandals and the alarming increase in accounting revisions and restatements. The distinguished accounting scholar Baruch Lev [2003] astutely posed the crucial issue this way, "Fraudulent earnings can be conceptualized and identified only relative to true earnings. But what are true earnings?" [p. 30]. Moreover, he observed, given the large number of necessary estimates and judgments required by CFOs to produce earnings reports, "what investors and managers have is an imprecise earnings numbers based on multiple and subjective estimates which is a far cry from facts" [p. 31]. If it is indeed the case that reports of earnings are neither factual nor true, then it may be that the accounting profession worldwide is in the throes of a crisis of legitimacy.

In October 2004, the IASB and the FASB embarked on a Joint Project, germane this situation, to develop a common conceptual framework and common standards for formal accounting reporting practices. This was a momentous occasion as all EU nations and nearly 60 others have agreed to adopt IASB GAAP. Both Boards and the Joint Project have consistently maintained that providing relevant information for economic decisions is the foundational concept for accounting standards. They have deemed that the *faithful representation* of real-world economic phenomena is the essential characteristic of such information, and that such

representations are faithful when there is *correspondence* between the accounting measures and descriptions in financial reports, and the economic phenomena they purport to represent, in a "true and fair" manner. Such reporting putatively assures that financial reports represent the substance rather than solely the legal form of the phenomena in financial reports. This position is underwritten by philosophical realism. [i]

This essay argues that worldwide practice of earnings management and manipulation casts a large shadow of doubt on the idea that earnings reports can be said to present a true and fair view of this vital accounting metric. It focuses on accounting earnings - variously referred to as net income, income, profit or bottom line – since it is widely seen as the key metric that accountants provide to users and stakeholders.[ii] Part II documents the faithful representation concept promulgated by standard setting boards including the Joint IASB/FASB currently on-going harmonization project, a position also ascribed to by many empirical capital market accounting researchers. It then briefly reviews the large body of research indicating that the practice of managing and manipulating earnings reports is widespread and then identifies the commonly used means by which CFOs draw on for this purpose. These observations suggest that the current state of accounting seems to be in the curious and perhaps embarrassing position that, on the one hand, standard setters call for earnings reports that faithfully reflect real economic increases in the enterprise's wealth; yet on the other hand, CFOs manage and manipulate earnings reports to satisfy the demands of the capital market.

Part III addresses this situation from the philosophical perspective offered by Frankfurt drawing on some of the ideas in his recent book *On Bullshit* and concludes that today's earnings reports seem to fit more closely Frankfurt's definition of "bullshit" than they reflect earnings.[iii] For many accounting scholars this has serious consequences for society – without the truth about enterprises' earnings, the efficient and effective allocation of society's scarce resources cannot be obtained. The essay reflects on this latter claim from Frankfurt's *On Truth* philosophical treatise on the value and importance to society of truth and the caring for truth. Part IV examines these claims and finds them wanting from the perspective of poststructuralist philosophers. It proposes that the accounting world take a linguistic turn for its philosophical underpinnings. And Part V brings to the forefront and pulls together the important issues and considerations that emerge from the other Parts. The observations in this essay should be seen in the broader historical context of the significant shifts over the years in earnings reporting.

For example**,** in the late 19th and early 20th centuries in the UK and the USA, the current operating performance notion came into prominence replacing the stewardship perspective which

had its roots in charge and discharge accounting. This reformation derived its logic from the English Law based on an analogy with a fruit tree where the tree is a capital asset and the fruit the revenue income. The sale of the fruit, less the attendant costs, comprised "income." The sale of any trees, however, was a gain [or loss] of capital and reported as part of owners' equity. This became known as the current operating performance dictum whereby income reports were deemed to provide a useful measure of the enterprise's earning power and capacity while transactions involving capital were to be recorded directly in the owners' equity account.

As the century unfolded, however, it became apparent that the dividing line between capital gains and losses and operating gains and losses was highly subjective. In many cases the difference was difficult to ascertain and it seemed that some items could readily be classified as either. Moreover, evidence emerged that losses excluded from income far exceeded excluded gains and involved "suspicious" subjective judgments. In effect, the current operating performance approach (i.e., "dirty surplus") had provided a handy means for manipulating reported income. Adopting comprehensive income with its clean surplus and Hicksian income idea was thought to abate such practices.

As time passed, more and more accounting standard setters, academics, and practitioners leaned towards the clean surplus view taking the position that in the long run all gains and losses are part of income. In the 1930s and 1940s, as the "income report supplanted the balance sheet as a focus of attention" [Paton & Littleton, 1940, pp.98-99], the debate centered on whether to adopt the "sustained earning power" (i.e., "current operating performances") position for the Income Statement and to relegate certain non-recurring gains and losses directly to the Surplus account, or to adopt the position that such items get obscured by this and that *all* gains and losses including capital and financial ones should be reported on an Income Statement. These debates continue today to be central to the development of authoritative accounting concepts and principals which guide earnings reporting.

## Part II

### The importance of earnings reports

Accounting for earnings, and particularly its derivative earnings-per-share [EPS] are widely seen as the most important information items that corporations provide to the global financial capital market today.[iv] This importance has been recognized for some time. The eminent accountant, George O. May [senior partner, Price Waterhouse & Co. and lecturer at the Graduate School of Business Administration, Harvard University] observed in his classic book,

"*Financial Accounting: A Distillation of Experience* [1943], that among the large number of major changes taking place in the maturing free-enterprise economy of the USA, "perhaps the most significant change of all is the shift of emphasis from the balance sheet to the income account, and particularly to the income statement as a guide to earning capacity rather than as an indication of accretions to disposable income" [p. 5].[v] Twenty years later Morrissey [1963, p. 25] reiterated May's observation, "Net income and related earnings per share have assumed increasing significance in our society as many millions of people have acquired a direct or indirect interest in corporate affairs as owners, employees, and creditors." And a decade later the FASB [1978] stated, "The primary focus of financial reporting is information about enterprise earnings and its components … [earnings] measured by accrual accounting provides a better indication on of enterprise performance than information about current cash receipts and payments [para. 43].

The situation is the same today. As Graham, Harvey, and Rajgopal [2005a] report, the CFOs in their empirical survey believed, "that the GAAP earnings number, especially EPS, is the key metric upon which the market focuses." [p. 31].[vi] And when asked to rank the three most important measures to report to outsiders, "CFOs picked earnings as the overwhelming favorite … Earnings are King" [Graham et al., 2005b, p. 4].[vii] Given this importance, consideration of the ontological and epistemological status attributed to earnings by standard setters and empiricist researchers merits attention. In doing so, it is important to recall that over the years the conventional thinking regarding earnings and income has undergone several major shifts.

**Standard setters' philosophical presupposition regarding earnings**

Accounting concepts and principles assert that true earnings refer to the current period's increase in the enterprise's *real* economic wealth.[viii] Formal guidelines for reporting accounting information state that decision usefulness to investors, creditors, and other stakeholders is the underlying basic objective of financial reporting where relevance and reliability are deemed to be the primary qualitative characteristics. And that to be reliable, information must have representational faithfulness where, "The reliability of a measure rests on the faithfulness with which it represents what it purports to represent, coupled with the assurance for the user that it has that representational quality" [FASB, 1980, pp. 5-6], where representational faithfulness is, "the correspondence between a measure or description and the phenomenon it purports to represent. In accounting the phenomena to be represented are economic resources and obligations and the transactions and events that change these" [para. 63]. Faithful representation also requires neutrality where "To be neutral, accounting information must report economic

activity as faithfully as possible, without coloring the image it communicates for the purpose of influencing behaviour in *some particular direction*" [para. 100].

The faithful representation axiom was reaffirmed recently by the FASB in its deliberations regarding the currently on-going joint IASB/FASB conceptual framework project, "To be useful in making investment, credit, and similar resource allocation decisions, information must be a *faithful representation* [italics in the original] of the real-world economic phenomena that it purports to represent. The phenomena represented in financial reports are economic resources and obligations and the transactions and other events and circumstances that change them." [FASB [2006, S8]. In May 2005, the IASB and the FASB agreed to replace reliability with faithful representation since the latter encompasses completeness, neutrality, and verifiability, the key attributes of reliability. The idea that accounting reports of income faithfully represent, or should represent, real economic increases in the enterprise's wealth has been the philosophical bedrock of the dictums and axioms of formal standard setting boards and related institutions over the years.[ix]

**Empirical researchers' ontological presuppositions regarding earnings**

The empiricist research community at large also adheres to this realist perspective of earnings. A case in point is the special issue of Accounting *Horizons* [supplement, 2003] focusing on the quality of earnings. The Editors' introduction states, "The Association's [AAA] 'Quality of Earnings' initiative signals the extent to which the academic wing of the accounting profession is dedicated to transparent financial reporting that *reflects the underlying economics* [italics added] of business activities" [Dechow and Largay, 2003, p. i]. The various authors in this volume refer to earnings using terms such as, "the underlying economic performance of the company" [Nelson, Elliott, and Tarpley, 2003, p. 17, quoting Healy and Wahlen 1999, p. 368]; "true earnings" [Hodge, 2003, p. 41, quoting Pratt, 2000, p. 750]; "quality earnings faithfully represent Hicksian Income" [Schipper and Vincent, 2003, p. 98]; and "the actual income of the firm" [Arya, Glover, and Sunder, 2003, p. 112]. This realist position is also signaled in a large number of other empirical accounting research articles.

For example, Collins, Pasewark, and Strawser [2002, p. 139], relying on Reither's [1998] survey of academics, standard setters, regulators, public accountants, and financial analysts, report that participants in their study ranked *economic reality* as the most important characteristic of formal accounting pronouncements and the lack of including it one of the worst characteristics of pronouncements. Bartov and Mohanran [2004, p. 918] report that, "managers exploit their

considerable discretion in the computation of earnings to inflate earnings in the pre-exercise period to increase their payout for excerices [of stock options].” Tucker and Zarowin [2006, p. 251] argue that, “income smoothing makes earnings noisier if managers intentionally distort the earnings numbers.” McVay [2006, p. 501] reports that, “Earnings management or masking of *true* [italics added] economic performance has been the focus of many papers.” And Richardson, Sloan, Solman, and Tuna [2005, p. 713] refer to the practice of “accounting distortions” of earnings. Rogers and Stocken’s [2006, p.1233] study examined, ”how the market’s ability to assess the *truthfulness* [italics added] of management earnings forecasts.” And Marnet [2007] argues that the wide scope for managerial judgment in GAAP, “enables managers to report firm performance that can obscure the firm’s *true* [italics added] financial situation” [p. 198]. Ohlson [2006] also identifies the highly problematic characteristics of GAAP-based reported income[x] and offers a solution that he calls “a practical model of earnings”, one that is, “rather unusual and quite different from GAAP” [p. 272] his model, “involves no divorced-from-reality ideas that would have suggested that the exercise is merely ‘academic’ with a negative connotation” [p. 272]. And Lev [2003] also seems to believe in true or real earnings. In discussing Enron’s earnings manipulation practices he asks, “What were Enron’s *true* earnings?” and “Why is it so difficult to determine *true* earnings?”[p. 29-30]. He concludes his critique with the exhortation, “We must think seriously about reforms that will change the incentives for earnings manipulations and will make corporate financial reports more *truthful* and revealing” [[p. 48, italics added].

This brief sampling of the literature suggests that many if not most empirical and other accounting researchers believe in the existence of some kind of “true”, “real”, “truthful”, “reality”, “undistorted”, “uninflated” accounting earnings and income of an enterprise. As Mouck [2004] observes, the literature of “mainstream” accounting research, “Tends to focus on ‘measurement problems’, suggesting that accountants are dealing with independently existing economic and financial phenomena” [p. 527] and she continues, assumes ontologically that these economic objects exist and so these researchers focus on the epistemological issues of how to measure them.[xi] It seems fair to conclude, in light of the above, that many, if not most, empiricist researchers hold to a prevailing belief that the economic income of an enterprise exists as some kind of a real, material thing prior to its representation in financial statement reports and that earnings can be reasonably truthfully reported. Such a belief, is underwritten, albeit only implicitly, by the philosophical theory of realism and its correspondence theory counterpart.[xii] The implications of this belief are discussed latter. Such reasoning is underpinned, if only

implicitly, by philosophical realism, scientific positivism, and the correspondence theory of truth. The long-standing and widespread earnings management and manipulation practice, however, suggests that accounting reports of earnings do not reflect some extra linguistic, real economic earnings.

**Earnings management and manipulation**

This practice is by no means a recent phenomenon. In fact, earnings management and manipulation was the main motivation of the US accounting profession's project in the 1930's to put into place a foundation of basic accounting principles, rules, standards, postulates, etc. that would guide accountants in preparing financial statements for the public. Such a foundation it was hoped, "will tend to eliminate random variations in accounting procedure resulting not from the peculiarities of individual enterprises, but rather from the varying ideas of financiers and corporate executives as to what will be expedient, plausible, or persuasive to investors at any point in time" [AAA, March, 1936: 188]. Nevertheless, the practice continued for the next 30 years and was widely documented in accounting articles [see Buckmaster {1992}, for a detailed review of such studies]. The 1970s and 1980s also featured a significant amount of earnings management [see Buckmaster {1997} for a historical review of these studies]. And, it seems to be a worldwide phenomenon. See, for example, Maijoor and Vanstraelen [2002] who report on the incidence of earnings management in France, Germany, the Netherlands, and the United Kingdom; Kallunki and Martikainen [2003] for Finland; Ferguson, Seow, and Young [2004] for the UK; Amat, Perramon and Oliveras [2000] for Spain; and Luez, Nanda and Wysocki [2003] for 31 counties around the globe. As McLeay [2005. p. 727] points out, while, "Earnings management appears to be a common feature of financial reporting" the pattern is different in Germany, France, and the UK.

Given that earnings reports, particularly earnings per share information are widely taken by financial market participants, standard setters, and empiricist researchers alike, to be the most important accounting numbers in financial reports, and that CFOs are constantly under severe pressure from financial capital market participants, it is not surprising that almost as a matter of routine they manage and manipulate reports of earnings in order to meet or beat analysts' consensus forecasts.[xiii] Earnings management and manipulation seems to be an institutionalized strand of financial capitalism. For many experts, however, it is not something to condone.

For example, Levitt, at the time Chairman of the SEC, remarked on the prevalence of such practices in his widely cited speech, *The "Numbers Game"* [September, 28, 1998] at the NYU Centre for Law and Business. He remarked on the alarming "widespread but too little-challenged

custom: earnings management. This practice has evolves over the years into what can best be described as a game among market participants. A game that, if not addressed soon, will have adverse consequences for America's financial reporting system" [p. 2]. "While the problem of earnings management is not new, it has swelled in a market that is unforgiving of companies that miss their estimates" [p.3]. He expressed deep concern that, "the motivation to meet Wall Street earnings expectations may be overriding common sense practices. Too many corporate managers, auditors and analysts are participants in a game of nods and winks" [p. 2]. In consequence, Levitt concluded, manipulation may be overriding managing, and illusion replacing integrity as corporate America exploits gray areas between legitimacy and fraud in accounting rules, "where the accounting is being perverted; where managers are cutting corners; and where earnings reports reflect the desires of management rather than the underlying financial performance of the company" [p. 2]. In his speech he refers to accounting "gimmicks", "trickery", and "hocus-pocus", citing common practices like "the big bath", "cookie jar reserves", "creative acquisition accounting", "material misuse", and "boosting" earnings by "manipulating the recognition of earnings". While he acknowledges that the problem is not new, "it has swelled in a market that is unforgiving of companies that miss their estimates" [p. 3]. He also stressed that *all* participants in the financial community can be held responsible for, "fostering a climate in which earnings management is on the rise and the quality of financial reporting is on the decline" [p. 3]. [This warning was prophetic – a plethora of accounting management and manipulation exposes soon followed.[xiv]]

Other high profile experts echoed Levitt's concerns. In 2002, Walter Schuetze [former Chief Accountant of the SEC] testifying before US Senate committee called "earnings management a scourge". And Lev [2003, p. 42] more recently observed, there is a great deal of evidence that earnings manipulation is widespread, "Although egregious cases triggering SEC and legal actions are relatively scarce, a large number of managers regularly fine-tune their reported earnings to meet external targets. "These subtle, hard to detect manipulations are quite prevalent" [p. 42]. In their highly revealing and groundbreaking study, Graham, Harvey and Rajgopal [2005a, 2005b] interviewed and surveyed 400 CFOs of US corporations regarding their perspectives on earnings management. The results are telling.

Their research produced important evidence regarding how CFOs make sense of such practices. In the first instance, the CFOs saw GAAP earnings numbers, especially EPS, to be the key metric on which stock market players [analysts, institutional investors, and individuals] focus. They ranked earnings much higher in importance than revenues, cash flows, and EVA.

They also believed that the "earnings management game" is widespread and, since everyone is doing it, they felt compelled to follow suit - a "necessary evil" but a vital aspect of their jobs. As one CFO put it, "you have to start with the premise that every company manages earnings" [2005b, p.7].

Given that all corporations are playing the earnings game, market players assume that most firms can always "find the money". Missing analysts' consensus targets, then, gets taken as a warning sign of "hidden problems". As a consequence, firms that miss these targets even by a few pennies get "punished" as the market "hammers" their stock price. The CFOs thought the reason for this is that missing a target is taken as a sign of "hidden problems" since most firms can always "find the money" to meet the market's expectations. Missing targets also signals that the firm is poorly managed and that its executives cannot even predict its own future and that "the firm has no slack available to deliver earnings" [Ibid. p. 5]. And, just as importantly for the individual CFO, missing targets reflects negatively on his or her competence, reputation, and career.[xv]

Graham et al. also believed that "smoothing" reported earnings is necessary because the market "hates uncertainty" and "reacts negatively" to volatile earnings patterns, usually by assigning the firm a lower than normal P/E ratio. Less predictable earnings command a risk premium in the market [2005b, p. 2]. Moreover, exceeding the target has little or no effect, "Hence, many CFOs prefer to 'bank' the excess earnings … motivated by concerns over job security, [they] save earnings for future periods" [2005a. p.43]. Ironically, "Given that you must play the earnings game, *shareholders should want their CFOs to manage earnings*" [2005b, p.16]. This view is supported by Bartov, Givoly and Hayn's [2002] finding that investors see some degree of earnings management as a sign management competency and reward it.

Importantly, the CFOs in Graham et al.'s [2005b] study saw the most crucial aspect of their job as "to build credibility with the market and help maintain or increase the firm's stock price" [p. 2].[xvi] Not only do they have to "manage earnings" but also just as importantly, they have to "manage" analysts' and investors' perceptions of the firm's ability to "deliver" sustained growth in "quality" earnings.[xvii] Many of the CFOs indicated that they try to "guide" analysts to a number that is less than the firm's internal target thus maximizing chances for a "positive surprise" [Graham et al. 2005a, p. 42].[xviii] Analysts, importantly, are not by any means "fooled" by this. Rather, they "are complicit in the earnings game and want to make "bellwether" stocks look good, and they don't want to be embarrassed if a firm misses the analysts' publicly circulated predictions [p. 43].[xix] One CFO put it this way, "Analysts viciously turn on you when

you fail to come in line with their projections" [p.43]. CFO's also work closely with their Investors' Relations Department in "managing" investors.

The CFOs, however, reported that they are "reluctant" to violate GAAP for earnings management purposes preferring to take real actions such as, " maneuvers with discretionary spending, changing the timing and perhaps the scale of investment projects, and changing accounting assumptions [p. 29].[xx] The CFOs also believed that smoothing earnings results in a lower cost of capital for the firm, so they would give up some real economic advantages in exchange for smoothing earnings. The CFOs acknowledged the use of accruals to manage earnings, but said they preferred to take real actions for this purpose [2005a, p. 66]. Accordingly, they "work aggressively within the parameters of GAAP" in order to "reduce the perception of uncertainty about the firm's prospects" [p. 50]. CFOs also explained that "the culture of predictability" permeates the organizational hierarchy. Divisional mangers, for example, "cushion" their budgets and take "real actions" to meet their budgeted earnings targets. Graham et al. [2005b] also speculate "many board members have no idea that the earnings game is going on behind their backs" [p. 16]. They report that the CFOs are just as keen on meeting earnings benchmarks post-Sorbanes-Oxley as before. It is important to understand that, "earnings management can occur without violating GAAP or breaching relevant laws, and hence does not necessarily involve fraud in the legal sense" [Marnet, 2007, p198]. The actual pattern of earnings management has been described by many accounting regulators and researchers.

**The earnings management and manipulation game**

Levitt [1998], for example, outlined these practices in very general terms, "This is the pattern earnings management creates: companies try to meet or beat Wall Street earnings projections in order to grow market capitalization and increase the value of stock options. Their ability to do this depends on achieving the earnings expectations of analysts. And analysts seek constant guidance from companies to frame these expectations" [p. 4]. Macintosh, Shearer, Thornton & Welker [2000] also sketched out a form of what they called the "hyperreal earnings management game" whereby the accounting sign of income and the analysts' forecasts circulate in an autonomous, self-referential möbius strip like fashion without reference to any real realm of economic wealth increases. More recently, Richardson, Teoh and Wysocki [2004] reported a detailed version, which they call "the walk-down to beatable analysts' forecasts", based on their large database of empirical evidence, that goes as follows.

In order to support the company's stock market price, analysts are "systematically optimistic" when forecasting earnings over a long time horizon for a particular company. Similarly, at the beginning of a fiscal reporting period, analysts also release systematically optimistic earnings forecasts for the current fiscal period (quarterly or annual). Aware of these tendencies, during the period, the company's financial officers and its investor relations managers give "guidance" to analysts in the form of "discretionary information disclosures" implicitly suggesting that the analysts should consider lowering their optimistic estimates. "Analysts are motivated to do so in order not to appear incompetent when the company issues its official earnings announcement, and to avoid a 'disappointment' on the official announcement" [p. 888]. Then, as the period unfolds, analysts gradually and systematically lower their estimates, especially towards the end of the period, causing the market price of the company's shares to temporarily decline. This opens a short window of "opportunistic incentives" for the players.

Company executives take advantage of this short-term depressed, market price situation by acquiring shares and/or issuing stock options to themselves using the market price as the strike price. [Investment analysts, it can be reasonably speculated, might also acquire shares at the depressed price, or even sell short just before the anticipated fall in price.] Shortly thereafter, the company releases its official reported earnings for the period at a level that "beats" the analysts' last estimates. Aware of this, the analysts now issue "strong buy" recommendations with impunity, knowing the stock's price will likely rise shortly after the company's official results are made public, thus enhancing both their reputation and often their compensation. At this juncture, "If the game is played right, a company's stock will rise sharply on the day it announces its earnings – and beats the analysts' too conservative estimates."[xxi] The company's executives then sell their recently acquired shares and/or exercise their stock options during this very short-window when the market price has temporarily increased. Managerial guidance "allows the (company's) managers to maintain favorable stock market prices exactly when they are needed, just after earnings announcements" [p.889].[xxii] Presumably the investment analysts also opportunistically take advantage of this temporary aberration in the company's stock market price. As Graham et al. [2005a, p. 43] report, "analysts are complicit in the earnings game." [xxiii]

Richardson et al. (2004) provide extensive empirical data to support their walk-down to beatable forecasts thesis concluding that, "This evidence is consistent with managers behaving opportunistically to guide analysts' expectations around earnings announcements to facilitate favorable insider trades after earnings announcements" [p. 919].[xxiv] And, while they comment

that, “These findings provide new insights on the impact of capital-market incentives on communications between managers and analysts” [p. 885], curiously they remain uncritical of their findings and so tend to “naturalize” the game. While it is likely that there are different versions of this game in practice, it seems to be the case that such games are widespread. As it turns out, CFOs have at their disposal a variety of means for the game of managing and manipulating earnings.

**Means of managing and manipulating earnings**

In the first instance, many accounts require a great deal of subjectivity on the part of statement preparers opening a space for “opportunistic accounting”. Lev [2003] cites General Electric as a prime case of their financial executives using their professional experience and expertise to make a host of necessary subjective assumptions and estimates regarding many accounts particularly accrual accounts [such as: losses on receivables, depreciation and depletion write-offs of physical fixed assets and hydrocarbon and mineral reserves, amortization of intangibles and goodwill, pension fund future earnings rates on fund investments, and future revenues steams from long term projects and products]. Whereas the reported balance sheet account for, cash and equivalents can be confirmed as factual and thus accurately reported, many other accounts including intangible assets such as goodwill and R&D get treated as an expense instead of representing future benefits. Such items are well as expected losses on receivables, depreciation expenses, and many revenue items “are certainly not facts” [p. 30]. A great deal of subjectivity is involved.

Secondly, the fact that promulgated GAAP and concepts are not only constantly changing, but also contain contradictions and ambiguities, not only offers another important means for earnings management maneuvers, but also pretty much makes them necessary. As Storey and Storey [1998, p. 152] observe, “The concepts statements describe but do not define earnings and income because they cannot be defined. Both result from applying generally accepted accounting principles and are determined by what is done in practice at a particular time.” Moreover, many of these GAAP and concepts are notoriously difficult to understand and mobilize in preparing financial statements. As Philip Ameen, Vice President & Comptroller of the General Electric Company, observed in his testimony to an important US Congressional committee, “Today’s financial reporting requires those who know the firm best – management – to accumulate and report transactions under an enormously complex set of about 100,000

internally inconsistent pages of accounting guidance with only the most primitive of indices" [p. 2].[xxv]

FASB chairman Herz [2005, p. 4] echoed this stating, "The fact is that what we call U.S. GAAP is comprised of over 2,000 individual pronouncements by various bodies and organizations in a variety of forms." He goes on to describe this vast corpus of accounting principles, rules, concepts, regulations, interpretations, implementation guides, etc. as disjointed, frequently in conflict, extraordinarily detailed, and complicated, so much so, "that only a rapidly decreasing number of CFO's and professional accountants can fully comprehend all the rules and how to apply them" [p. 4].[xxvi] He also notes that a diverse array of public and private bodies, institutions, and committees contribute to this vast body of official pronouncements.[xxvii] "The result", Herz concludes " is a body of official accounting literature that is hard to understand and difficult to use. In one word, nuts!" [p. 5]. This state of affairs also makes it difficult for outsiders to understand how corporate officers interpreted the rules, guidelines, and GAAPs. Lev [2003] concurs, arguing that earnings manipulation thrives on and is aided by the constantly changing and considerable flexibility allowed by GAAP in interpreting this "thicket of rules" [p. 48]. The massive imbroglio of accounting pronouncements clearly requires a great deal of subjective judgment to operationalize, thus presenting many opportunities for financial officers to manage earnings reports.

The widespread practice of "structuring transactions" is a third important means of managing earnings. Structuring transactions for tax accounting purposes is a well recognized phenomenon within both the accounting profession and academy. For example, Gramlich and Wheeler [2003] document how Chevron, Cortex and the Indonesian government structured accounting transactions in such a way that Chevron and Caltex avoided billions of dollars of U.S. Federal and State income taxes.[xxviii] And in a more general critique of the accounting profession at large, Professor of Law Jeffrey Gordon [2002] relates such tax accounting practices ["tax planning"] to financial accounting transaction structuring, what he calls "accounting planning". Tax planners, he observes, "provide value by structuring a company's transactions so as to minimize tax, applying a formalistic approach to the constraints of law against a background interpretive norm of 'reasonable basis'" [p. 1238]. This practice, "all too readily carries over to 'accounting planning,' in which the accountant aggressively construes accounting rules to maximize reported income" [p. 1238].[xxix] As O'Brien [2005] sums it up, "Without doubt, preparers of financial statements design contracts and transactions to circumvent the substantive objectives of financial reporting rules and to achieve particular reporting forms. Accountants

have known this at least since the first accounting standard on leasing, and probably for much longer" [p. 246]. [xxx]

A fourth major means for earnings management involves the staging [some might say "manipulation"] of *real* activities. Examples include altering the timing of sales and expenses "transactions with the intent to affect reported earnings" [Lev, 2003, p. 33]. The strategic timing of asset sales and restructuring programs can also affect reported earnings. While reducing [or increasing] R&D expenditures and major capital expenditure spending to "move" earnings figures between reporting periods is another common practice. As Lev points out, however, it is often "difficult to ascertain whether or not a specific real [in contrast with accounting] action was aimed at manipulating earnings or dictated by strategic considerations" [p. 33].

And a fifth means concerns negotiations with the corporation's external auditors. A substantial body of empirical research has uncovered evidence that corporate financial officers, in the normal course of events, enter into negotiations with the engagement partners of their auditors regarding important accounting reporting issues that have a material effect on reported results in their financial statements. Such negotiations occur on a regular basis usually involving complex and sensitive issues [Gibbins, Salterio, and Webb, 2001, p. 561]. This study also found that "income measurement" to be the primary issue for the negotiations, followed by balance sheet valuations.[xxxi] Such negotiations are a vital and integral part of the earnings management process.

The widespread practice of managing and manipulating earnings by the above means would seem to belie the realist assertions of standard setters and empiricist researchers. While the conventional wisdom asserts that reports of earnings refer to some kind of real economic increase in wealth existing ex ante before its true and fair representation in an accounting report, an extensive body of literature evidences that the numbers are manufactured by corporate financial officers in the context of earnings management games they participate in with investment analysts. So it is difficult to regard these numbers as ex post representations. Rather, it seems that they are fabricated, to an important extent at least, ex ante as will be discussed at length in Parts IV and V below. But this does not necessarily signal that they are false, that is to say fraudulent, nor that they are necessarily violations of existing GAAP.

That notwithstanding, it seems clear that the managed and manipulated earnings reporting phenomenon belies that such reports reflect true economic increases in earnings. Part III

investigates this discrepancy from the perspective offered by Harry Frankfurt, a well-respected moral philosopher in his best selling essays *On Bullshit* and On Truth.

## Part III

### Truth, lies, humbug and BS

Frankfurt [2005] laments that one of the most salient features of our culture "is that there is so much bullshit" [p. 1]. "The realms of advertising and of public relations, and the nowadays closely related realm of politics are replete with instances of bullshit so unmitigated that they can serve among the most indisputable and classic paradigms of the concept" [p. 22].[xxxii] Frankfurt speculates on the reasons for this prevalence of "BS". For one thing, citizens in a democracy are supposed to have opinions about its affairs and events. And many believe it is their duty as moral agents to evaluate and say something about what is going on in the world, even though they are by no means experts in such events. As well, he thinks many perceive a need to conform to the ideal of sincerity as a way of coping with the suspicion promoted by many current day postmodernist philosophers that direct access to any objective reality is a non-sequitor.[xxxiii] But a more pervasive reason for Frankfurt is that BS is unavoidable in circumstances which *require* the individual [such as corporate accounting officers, as argued later] to discourse on matters without knowing the truth of the way things really are. Yet, he observes, we don't know why, we don't really understand its function, and we don't know what the term means to us. Thus, he proposes to make a beginning at developing a philosophical understanding this phenomenon.

Frankfurt starts by distinguishing rhetoric from Black's [1985] notion of humbug defined as "deceptive misrepresentation, short of lying, especially by pretentious word or deed, of somebody's own thoughts, feelings, or attitudes" [p.143]. The perpetrator's *state of mind* is the essential characteristic of a lie, "It is impossible for someone to lie unless he thinks he knows the truth" [p. 55]. The truth teller believes he knows the truth about a particular state of affairs and wants to tell the audience about it; while the liar, also believing he knows the truth, deliberately intends to deceive the audience about it. "Someone who lies and someone who tells the truth are playing on opposite sides, so to speak, in the same game" [Frankfurt, 2005, p.60]. But for the humbugger, his motive is simply to make an impression on the audience by means of pretentious word or deed. It is not to deceive the audience regarding a state of affairs that he has in his mind as being true. Since he does not *deliberately* utter something that differs from what he himself believes about these matters, his oration can be said to be short of lying.[xxxiv]

The BS is also indifferent to the truth of how things really are. His utterances involve neither an intentional state of mind to report a truth not to lead the audience away from it. As

with the humbugger, he wants only to give the impression that he is trying his best to tell the truth. Given this representational intention, his utterances also can be said to be *short of a lie*. The stereotypical used car salesman is a case in point. He has a story he uses to sell the car. He tells potential buyers that the car is in great shape, that the mileage is very low for a car of this vintage, and that it was driven by a retired minister who only took it out on Sundays and who faithfully followed the dealer's maintenance program. The philosophical issue that arises with the car salesman, however, is that he is not at all concerned with the truth. His disclosure, on Frankfurt's take, is BS.

BS, differs from humbug in that it is very carefully crafted paying meticulous attention to details. It requires great discipline and the eschewing of self-indulgent excesses. It is wrought with the greatest care, even though it is not germane to describing the way things "really are". The BS works diligently to get every detail, every word, and every image exactly right. In doing so he does not reject the authority of the truth, "he is neither on the side of the true nor on the side of the false" [p. 56] - he merely brackets off such a concern. Even though the BS does not try to deceive his audience about the referents of his discourse he *misrepresents* his project, "Both he and the liar represent themselves falsely as endeavoring to communicate the truth" [p. 54]. For both their success is contingent on deceiving the world about their motives. While the liar wants his audience to believe something he thinks is false, the BS wants to hide the fact that, "the truth values of his statements are of no central interest to him; what we are not to understand is that his intention is neither to report the truth nor to conceal it" [p. 55]. He misrepresents what he is up to by hiding his intentional state of mind. This unconcern about the truth of the referents of his statements, gives a false impression of his intent. The consequence, Frankfurt concludes, is that the audience is led to believe that the BS is either telling the truth or making a sincere effort to do so.

Thus, given that he does not misrepresent what he has in his mind regarding what he believes to be the truth, we can say that his utterances are short of lying. "He is neither on the side of the true nor on the side of the false"[p. 56]. Even so, indirectly at least, the BS misrepresents his state of mind. Frankfurt views this as a form of fakery. It is just this *unconcern* regarding how the things, and whether something is right or wrong that he speaks or writes about, that Frankfurt wants to expose. As a traditional moral philosopher, he sees this as an egregious affront to society's accepted standards of morality since the BS lacks this moral sense, BS is "a greater enemy of truth than lies are" [p. 61]. Given that today's culture is saturated with BS, Frankfurt fears that society is degenerating into a morass of crassness and moral turpitude.

Accounting for earnings today seems paradigmatic in several important respects of Frankfurt's philosophical analysis of BS.

**Accountants as BS**

The accountant's agency in earnings manipulation can be thought about in terms of four attitudes to accounting truth. Following Frankfurt, we can categorize these into four accountant caricatures – "the truthteller", "the liar", the "humbugger", and the "BS" accountant in order to distinguish them on the basis of their philosophical attitude towards the truthfulness of their accounting reports. The truthteller accountant conforms to the common sense view of accounting and his agency, the perspective advocated by professional accounting bodies and many academics alike. These are the accountants who dutifully, and to the best of their ability, try to comply with both the form and the substance of promulgated GAAP. They believe that the earnings reports they produce do indeed represent a true and fair view [or presents fairly] the real economic affairs of the enterprise including the results of its operations [i.e., its economic increase in wealth]. And they assume that such a reality exists as an independent object and, more over, that its truth can be captured in accounting reports. The truthteller accountant believes this and faithfully pursues it when "doing the accounts."

The truthteller's opposite number is the liar accountant. Ironically, these types believe in and care just as much about the truth of their accounting reports as does the truthteller accountant. They want to lead people who rely on financial statements away from what they believe to be the truth about the corporation's earnings. They deliberately falsify financial statements in order to mislead stock market players [and other stakeholders] and to manipulate the stock prices, often for personal gain. The accounting liar typifies those that the popular press and most academic accountants vilify as the financial officers in the Enrons and the WorldComs of the world who are generally thought to have perpetrated accounting scandals.[xxxv] Paradoxically, both the truth teller and the liar are seriously concerned with and have a stake in "knowing" the truth. They believe that there *is* an accounting truth about earnings that could be reported.

There are also elements of humbug in accounting reports. A case in point is General Electric Corporation's [GE] *2005 Annual Report*. The Report begins with the *Letter to Stakeholders* section from Jeffrey Immett, chairman of the board and CEO, which speaks of GE as a very large but great and socially responsible company, "Even as the world seems to grow smaller, the challenges – and opportunities – of a global economy are bigger than ever. And that's good news for GE. In a more complex world, GE's size is an advantage. GE dreams big

ideas, tackles big problems and anticipates big growth now and in years to come. GE is a big company. We think big is beautiful. At GE our size is a consequence of our employees' commitment to excellence and determination to win. Our goal is not just to be big, but to use our size to be great" [p.1-2].

The humbug seems to be that "We are big and big is good for all – employees both current and retired, children, the environment, and last but not least, the loyal shareholders. Immett's motive, one might speculate, is to make an impression on the world, to have the audience believe that he believes in GE's provenance, purpose in the global economy, and destiny as a great company with a noble mission for the world. Moreover is also seems fair to say that his utterances in the letter are "short of lying" since his motive is not to deceive the audience regarding matters such as bigness, pensions, children's' educations, and the environment. He only intends to convey a certain impression of GE and himself to the world and perhaps especially current and potential shareholders. [xxxvi] Most letters to shareholders of other corporations contain similar humbug. Such rhetoric seems to fit well Frankfurt's definition of humbug.

But it is the fourth type of accountant, the BS, who should be the most worrisome for users of accounting reports.[xxxvii] These types are indifferent to the truth of the object they are representing. Ironically, they are not burdened with either the weight of the scruples that are carried by the truthteller, or with the liar's fear of being exposed. The BS accountant is similar. She takes the books of accounts, draws on the official GAAP, interprets some of the key principles/rules [e.g., revenue recognition, matching, cost allocation, materiality, and the like], keeps in mind the official conceptual framework, follows closely the huge corpus of official IASB and FASB GAAP and the sundry other accounting pronouncements and dictums of institutions like the SEC, the EITF and the IFRIC, and creates an accounting narrative about the enterprise. In doing so, she is indifferent to whether or not the earnings report tells the truth or not. She is only concerned to construct financial statements that accord with GAAP and which will satisfy the market for accounting information – investment analysts, shareholders, bankers, top executives, the SEC, tax authorities, and other related parties. While the used car salesman's goal is to sell the car regardless of its true condition, this accountant's goal is to satisfy these parties regardless of what may or may not be the true company's "true", in the sense of corresponding to some extralinguistic object, real economic income. The ends – producing earnings numbers which conform to accounting principles, rules and guidelines - dominate the

means – the technical accounting skills and experiences. Truth and lies are matters to be left for trained philosophers to investigate.

Ironically, following this line of reasoning, it can be said that for the most part, the accountants at Enron were not necessarily liars but simply BS.[xxxviii] In contrast, on Frankfurt's view the accountants at WorldCom, Bristol-Myers Squib, Enron, and Miniscribe were liars. WorldCom accounting officers, for instance, deliberately and knowingly [fraudulently] reported over one billion dollars of certain expenses as capital expenditures. They wanted to lead users away from what they believed was the truth. While accounting liars can be found out and even jailed, BS accountants do not necessarily violate any official accounting principles and rules. As Lev [2003, p. 32] acknowledges, it is frequently very difficult to distinguish after the fact between intentional misrepresentations [lies] and honest misestimates.

Thus, following Frankfurt, it would seem that BS accountants pose the biggest challenge for stakeholders at large. Since they are unconcerned with the truth status of the financial statements they prepare, they cannot be accused of presenting statements that they do not believe represent the true economic realities of the enterprise. They do not presume to know the truth. So, on Frankfurt's terms they can only be faulted, if fault them we must, for not trying to report the truth, for not seeking the truth. Philosophically, it is their indifference to the truth that is of major concern for Frankfurt, "It is this lack of connection to a concern with the truth – this indifference to how things really are – that I regard as the essence of *bullshit*" [p. 34].

However, if income [in its various forms including Hicksian income, comprehensive income, net income, earnings, etc.] cannot be defined, only described, and if income is only a socially constructed linguistic object, then the accountants' indifference seems both practical and reasonable. [xxxix] They cannot be justly accused of deliberately issuing financial statements that they presume to be false. Their accounts of earnings are grounded neither in a belief that they are true, nor, as a lie must be, in a belief that they are not true. It is only their lack of a concern with the truth that should be of great concern. Perhaps the time has come to remove the declaration in the audit report that the statements present "a true and fair view" and rather merely declare that they were prepared in accordance with prevailing conceptual framework axioms and GAAP relying on professional judgment regarding their mobilization in financial reports. The above descriptions of four types of accountants, importantly, are only stereotypical characters. They are offered only in order to address the earnings manipulation from a Frankfurtian perspective that provide new insights.

Paradoxically, this does not mean that BS accountants' narratives are "not for real." The topic of their discourse has to do with vital aspects of financial, social, and political life. And they take their task seriously. They want the users to perceive a high level of candor in their presentations. This is evidenced by the ostensible factualness in appearance of annual reports including the financial statements. So accounting reports give the impression of truthfulness. They are wrought with the greatest care. They require a great deal of discipline. And accountants pay meticulous attention to the details including preparing extensive notes to the statements regarding how the various accounts are produced. In this regard, they are certainly not humbuggers or liars.

Rather these accountants are like highly sophisticated craftsmen and bricoleurs, dedicated to getting every word, phrase, number, and image precisely "right". Today's annual reports of most enterprises of some size run to nearly 100 pages or more including highly technical notes explaining how the various accounts were prepared.[xl] So while accountants, except for liar accountants, do not want to deceive, they may inadvertently misrepresent themselves as sincere in preparing accounting reports. What they do is convey a sense of sincerity to the telling of the earnings tale, rather than being concerned with some underlying economic truth of the financial statements they prepare. The impression, however, is that they strive to tell the truth and that they are sincere in preparing accounting reports.

In this regard, accounting is well suited. It has the trappings of professional designations and institutions, a multitude of official and unofficial authoritative pronouncements, and the auditor's opinion attests that the statements present a true and fair view [or present fairly] also giving the impression that the reports are true reflections of the financial position and the results of the enterprise's operations. Paradoxically, if the accountant is not concerned to discover and report the true "bottom line" or "final word" about the enterprise's real economic earnings, then philosophically it makes no sense to accuse the accountant of violating representational faithfulness, nor does it make sense to call such reports fraudulent or lies. When accountants manage and manipulate earnings reports they produce BS, albeit a very high quality of BS, but it is still short of being lies.

What then is the important lesson to be extracted from the above Frankfurtian philosophical analysis of accounting for earnings? One might conclude that accountants need to recover a deep concern for the value of a disinterested effort to determine the truth of the information they produce about earnings.[xli] It is not enough, this argument would hold, to give the *impression* that they are sincere in their reporting endeavors. Rather, accountants should

return to the ideal of striving for the truth of this key metric. Such an idealistic position challenges the current cult of earnings management and manipulation aimed at assuaging investors of the worthiness of investing in the reporting enterprise's stock.

While Frankfurt offered a philosophical theory of the prevalence of BS, outlined an analysis of the concept, showed how it differs from lies and truth, and indicated how to apply the concept correctly, he did not say much, however, about just *why* truth is so important. In *On Truth*, he wanted to remedy this by offering his moral philosophy of truth and explaining why he believes that truth is essential to our civilization and why indifference to it is harmful to both the individuals and society.

**Does truth in accounting matter?**

Civilizations of a higher level, Frankfurt [2006] argues, must depend heavily on a conscientious respect for the importance of honesty and clarity in determining and reporting facts [p. 16]. In order for any society to function even minimally, "It must have a robust appreciation of the endless protean utility of truth" [p. 15]. Lacking this, its intellectual infrastructure of science, social science, the humanities, and the fine arts cannot prosper. A society that cares little for truth is incapable of making well–informed decisions and judgments in conducting its public business. In attempting to plan and manage our practical affairs we are undertaking to cope with reality and so truths have instrumental value since they depict the nature of such realities and, " provide us with accurate accounts … of the real objects and events with which we must deal when we act" [p. 52]. When we know the truth, "We are in a position to be guided by the character of reality itself. The facts – the true nature of reality – are the final and incontrovertible recourse of inquiry" [p.58]. As with engineering [e.g., building solid bridges] and like medicine [e.g., prescribing the correct procedures and medicines], Frankfurt believes, a society needs templates for proper social behavior based on truth and truth seeking. Otherwise a society can neither flourish nor successfully pursue and accomplish its ambitions. This assumes, albeit only implicitly, that such templates exist as extra-linguistic objects in some real realm.

Frankfurt's urgings for seeking truth rather than spreading BS, supports the prevailing conventional accounting view that "information deficiencies" affect not only the ability to maximize stakeholders wealth but also the "fairness" of global capital markets. Such practices are also seen to work to distort decisions regarding the allocation of society's scarce resources and it capital formations.[xlii] As FASB [1978] states, "the effectiveness of individuals, enterprises, markets, and government in allocating scarce resources among competing use 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" [para. 16]. While Lev [2003] points to the cost of distorted earnings reports including increased costs of capital to corporations and the transfer of wealth from unsuspecting investors into the hands of "corporate insiders and investment bankers" [p. 43]. He also cites the increased costs of auditing, of directors' time and remuneration, and of increased regulation by government institutions. On such a view, without the truth about earnings, not only will society suffer, but may even be flying blind.

From this perspective, BS accounting can be seen as more harmful than liars' accounting. At least the liar's accounts, when demystified and exposed, can be seen as a particular microcosm of the wider spectrum of accounting practices and thus as a way to dissimulate the real scandal – that accounting practice today is indifferent to the truth, not only of the enterprise's real economic events, transactions and wealth changes, but also of its vital partisan political role.[xliii] So some academics [e.g. Solomons] would urge accountants to report the truth of the underlying economics of the enterprise; while others [e.g. Tinker, 1985] would urge them to report the truth of accounting's partisan role in supporting the alienation and exploitation inherent is the capital accumulation process of today's corporate world. Both perspectives, paradoxically, are philosophically realist and so support a Frankfurtian realist-based perspective of accounting.

Furthermore, at the individual level, Frankfurt [2005] sees truth as the authority for guiding humans through an often turbulent and confusing life world. "We select the objects we desire, that we love, and to which we commit ourselves to pursue, because of what we *believe* about them … unless we know whether we are justified in regarding various factual judgments as true, we cannot know whether there is any sense in feeling or choosing as we do" [p. 31-32]. Without truth, we are left with nothing to guide us through life "but our own feckless speculations or fantasies and the importune and unreliable advice of others" [p.60]."We need to avoid being debilitated either by error or by ignorance. We need to know and, of course, we must also understand how to make productive use of a great many truths" [p. 34]. Moreover, "The distinction between what is true and what is false remains critically pertinent to our assessments of evaluations and normative judgments" [p. 30]. The truth is the grist for a morally healthy existence; without it the individual, as with society, is "flying blind" [p. 61].

On this account, seeking the truth in accounting reports is also vital for the individual accountant to live a morally satisfying life. In this regard, using Searle's [1995, 2004, 2005] simple "X" cbtains the staus of [counts as] "Y" in circumstance "C" formula, professional

acountants [X] count as truth tellers [Y] in the context of their statutory deontonic powers.[xliv] These powers are not natural [nature given] but rather the result of the culturally institutionalized collective intentionality of society. Searle [2004. p. 22] refers to these as "desire independent social actions" meaning that the rights and responsibilities that come along with the status function independently of the personal desires of the professional accountant.

In sum, Frankfurt's philosophical position as above is very much in the traditional, modernistic logical positivist, moral philosopher's vein. It assumes that there is such a thing as an objective, extra-linguistic truth of things in the world and that it is potentially possible to express that truth in some kind of media, particularly language. That is to say, we may be able get it right if we try hard enough. Some utterances get it right while others get it wrong - they are false - and some even get it wrong on purpose - they are lies. But it is the BS accountant who pose the biggest problem for society. Because he is unconcerned with the truth he misrepresents his intentions and so leads his audiences to believe that his narratives is telling the truth, or at least that he is are sincerely making an effort to do so. On this view, since truth in accounting and the striving by accountants for reporting the truth are essential ingredients for society today, it would seem incumbent on them that they stop producing BS and start producing, or at least strive to produce, true and fair reports of earnings.[xlv] This claim is discussed and problematized next in Part IV.

## Part IV

This essay has focused on the nature of accounting reports of earnings and income in contemporary society. In this regard, the IASB and the FASB official statements and the IASB/FASB joint project have consistently espoused a realist philosophical position. They explicitly state that to be useful to decision makers, true and fair accounting information must represent real economic things and events in the real world.[xlvi] They also place a premium on representational faithfulness, verifiability, and neutrality asserting that such representations must correspond to the substance [not their form] of economic things, events, and activities.[xlvii] This assumes that accounting language, concepts, and standards are scientific-like, neutral tools that are useful for discovering the underlying true properties [their organizing structures] of the enterprise's economic reality and that accounting language is taken to be a relatively transparent window on the truth of the enterprise. It furthermore assumes that that this truth exists ex ante before its ex post representation in an accounting report. So accountants can present to the world in a true and fair manner [in all material respects] the enterprise's real earnings.

Two philosophical presuppositions underpin this position. Ontologically it assumes that the enterprise's earnings exist as a brute economic reality object with an intrinsic nature of its own that can be expressed in accounting terms. Epistemologically it adopts positivism and assumes that official accounting concepts and GAAP constitute an objective way of capturing that essence. So it is the way the enterprise actually is [or was] in the world that decides whether or not a statement about its earnings is true. This position can be supported by Searle's [1995, 1998, 2005] realist philosophical stance which asserts, there is a way, only one way, that the world, and the things in it, is. This objective world exists in a state of brute reality and so, "Statements are made true by how things are in the world that is independent of the statement[s]" [Searle, 1995, p. 219]. Elsewhere, "Truth is a matter of correspondence to facts … " and sentences, " … are assesed as true when the way they they represent thngs as being is the way things really are" [Ibid. p. 199]. And, "Sentences are made true by how things are in the real world " Ibid. p, xiii]. On this view, what makes such accounting statements true is how things are independently of accounting reports about them when such statements correspond to how things really are. Searle, a highly respected philosopher in his right, is an adamant and devoted realist.

Such a realist philosophical position, however, dissimulates that truths are made and not found, a stance that poststructuralist philosophers challenge.[xlviii] While the latter are highly skeptical of the idea of any such extra linguistic objective truth, they however do not want to go so far as to claim that there is no truth out there since this would open them up to charges of self-referential inconsistency.[xlix] Instead, they want to set aside [bracket off] the issue of truth out-there as a permanently irresolvable project [or one that can only result in trivialities such as, "The cat *is* on the mat"] since it cannot be shown objectively that a non-existent thing does not exist. While they do not to deny that the world exists out-there; they do not accept the claim that the truth about it is also out-there. Their position holds that language must come between such objects and observations of them. As Nietzsche famously made the point, " 'Truth' is therefore not something there, that might be found or discovered – but something that must be created" [1968, p. 298]. Truths are the creation of humans using language and languages are the inventions of humans. The same holds for accounting language and its use by accounting officers.

Importantly, however, to say that linguistic descriptions of the world are not out-there is not to say that the world is not out-there. [That would be the stance of the irrealist who claims that all we can know is mind dependent.] Rather, "To say that the truth is not out there is simply to say that where there are no sentences there is no truth, that sentences are elements of human

languages, and that human languages are human creations" [Rorty, 1989, p.5]. Contra Searle, the world out there does not say which sentences are true and which are not because language and vocabularies are not out there. This means that, "Truth cannot be out there – cannot exist independently of the human mind – because sentences cannot so exist, or be out there. The world is out there, but descriptions of it are not" [Ibid. p. 5]. Similarly, Derrida [1976, p.158] argues that the meaning of a text cannot be outside the text, "there is no outside-text: *il n'y pa sde hors texte.*" Meaning that there is no outside-the-text, extra-linguistic, true referent or signified to which the text refers, and which gives text it's true or central meaning.

So just as humans mobilize languages to make truths, accountants mobilize authoritative accounting language - concepts and GAAP - to produce narratives about enterprises. These accounting vocabularies, concepts, and standards, however, also were not out there waiting for accountants to discover them. Standard setters made them using accounting language including the language of accounting. So when accountants mobilize them they are *manufacturing what counts as truths* about the economic activities of enterprises, rather than *finding* them. [Thomas's [1969, 1974] seminal and still highly relevant on the atheoretical and arbitrariness of cost allocations clearly demonstrates this but seems to have been largely ignored by today's researchers]. The following examples illustrate these nuanced but vital points.

Current authoritative accounting literature calls for comprehensive income either in a single statement or in two separate statements - an income statement and a statement of comprehensive income.[1] Comprehensive income is taken to be an indictor of the change in equity [net assets] from transactions, events, and circumstances from non-owner sources for the reporting period. This position, underpinned by the clean surplus and Hicksian income axioms, is the current preferred choice of IASB and FASB standard setters and it has the implicit consent of regulators such as the SEC. It has come to replace the current operating position [i.e., dirty surplus] along with its matching of earned revenues with their related costs method fundamental conceptual axiom that held sway in an earlier era. The latter position deems net income to be an indicator of the enterprise's earnings capacity and the key metric for investors and creditors. In contrast, comprehensive income is deemed to be an indication of the enterprise's increase in economic wealth. Another fundamental choice for standard setters over the years has been between historical cost based accounting and the economic theory fair value [i.e., mark-to-market] method. [li] The latter privileges the balance sheet as the premier statement and Hicksian economic income as a better measure of the enterprise's increase in economic wealth than is net income.

In these examples whichever of these various vocabularies [i.e., axiomatic doctrinal discourses] is ceded place of privilege by standard setters determines in large part determines what gets constructed, presented, and taken for the truth of earnings. In the further past the vocabularies employed in the then favoured accounting discourse have changed, just as they have changed again in recent years and are currently changing as the joint IASB/FASB project rapidly rolls on. This means that what counts as accounting truth is a product of which particular authoritative accounting vocabularies and discourses are currently promulgated. And when standard setters change how they "talk" about accounting, in effect they change what accounting reports of income "say". On this view we have come a long way from Frankfurt's notion of truth and lies and from Searle's criterion that it is the way the world is that makes a statement true or false.

The dilemma for believers in truth seeking is that we cannot somehow get outside of language to report earnings. Accountants manufacture accounting truths using currently prevailing accounting vocabularies. It follows that the responsibility for accountants producing BS in the form of managed/manipulated reports of earnings, rests in part with standard setting boards as it is their authoritative power to make the pronouncements that accountants interpret and draw on to produce earnings reports. Today standard setters and accountants alike have lost the habit of using the vocabulary and language of historical cost and the current operating performance and acquired the habit of using that of the all-inclusive clean surplus and fair value metric vocabularies. This means that accounting truths are historically and linguistically contingent, not permanent and extra linguistic. It also means that accounting truths are produced in virtue of the authoritative power invested in private sector, undemocratic standard setting institutions.

If these argument hold, there are important considerations for the accountants who produce income statements and who are subjectified to comply with the current stock of authoritative literature. Deontologically they have both the right to rely on these official pronouncements and they have the obligation to comply with them. Thus, their statements can be said to be *correct* in the same way as players *correctly* move chess pieces in accordance with the rules of chess. Analogously, accountants manufacture the "truth" about income by making the *correct* moves which are sanctioned by official concepts and GAAP – the "rules" of accounting. The truth criterion of their statements is whether or not they correctly followed the rules. In this sense they produce statements that are "short of lies" on Frankfurt's terms, but which nevertheless count as being true. They are *only* charged with "saying" what "counts" as the truth.

Their “sayings”, however, are not necessarily accurate depictions of real economic increases in wealth, nor are they deliberate distortions of what they believe to be the truth. Thusly, they are relieved of a concern with the truth of their statements. Nevertheless, what is important is that their reports [BS or otherwise] count as the truth. They get objectified and naturalized as being true by the consumers of their reports. The above considerations suggest that a reexamination of the philosophical underpinnings of accounting standards and of accounting practices is in order. Part V offers some observations that follow from the above along these lines.

## Part V

The poststructuralist directions included in Part IV suggest that accounting for earnings and income is not a science, not even a theory based applied science like engineering or medicine. Rather, it is more in the nature of a Wittgensteinian-type [1953, 1958] language game in which words and utterances are like the tools in a toolbox and which function in a variety of ways depending on the task at hand. Analogously, accounting principles, fundamental concepts, SEC core rules, and de facto implementation guidelines [such as EITF and IFRIC] are the tools in the accountant’s tool kit. On this view, the accountant is neither an artist, a scientist, nor an applied scientist but rather more of a *bricouler*, someone who invents his or her strategies for using existing materials in a resourceful, creative, and even original way to complete a specific task. And an accountant’s report is a *bricolage*, a work constructed from a diverse range of things which happen to be available. [See Lévis-Strauss [1966], pp. 16-21 for a detailed description of these terms.] This is a far cry from a scientific endeavour or an applied science.

Thus, it seems difficult to sustain a belief that earnings reports faithfully, or even can, reflect some real economic increase in wealth in an objective, neutral manner. Rather, as Mouck [2004, p. 530] observes in discussing accounting “facts”, the concept “net income” is a socially constructed institutional discursive object and its numerical representation in an accounting report is an indication of a change in another socially constructed institutional discursive object called “net income”. Both exist, he observes, as ontologically subjective social “realities” with the former being a “fuzzy indicator” of the latter. Thus, he concludes ,“The dollar amount assigned to net income has no *objective* referent in either brute reality or in institutional reality” [p. 535]. Lee [2006b, p. 46] argues similarly, “Accounting for economic reality is a chimera … A major flaw in the CF of the FASB – and those of similar bodies – is its inference that there is some form of objective economic reality independent of its accounting representation and about which there is consensus as to its existence and meaning.” Macintosh et al. [2000] go even further describing this situation as paradigmatic of Baudrillard’s [1983] “hyperreality” whereby

signs of income circulate in a self-reflecting realm of pure signs with no articulation to any real objective economic income. Such research offers convincing arguments that accounting reports of income exist independently of, and do not correspond to, any real economic income. On this view, accounting signs of income are free-floating artifacts – not facts that correspond to some Searlean brute reality.

If these arguments hold, it behooves standard setters to reconsider the current authoritative realist and correspondence philosophical underpinnings of their fundamental concepts, GAAPs, and implementation guidelines. These in any case consist of a notoriously difficult to understand, often conflicting, extraordinarily detailed and complicated, vast imbroglio of rules, guidelines, pronouncements, axioms, and dictums. As many scholars [such as Hines [1988, 1991] and Storey & Storey, 1998] have observed, these are more in the nature of a reflection of practice than emerging from theory and philosophy. The result is what should be a highly disturbing situation, accounting officers respond first and foremost to the expectations of current and potential investors, and only secondly to authoritative pronouncements when producing earnings reports. As Frankfurt's BS concept indicates when applied to accounting, they do not strive to produce ex post, objective reflections of some independent, extra-linguistic real economic income. Rather, the driving force behind such practices is to the extent possible without resorting to fraud, to report double-digit increases in earnings [particularly earnings per share] and revenues to capital market players.

The result is a vicious circle whereby authorities constantly produce new rules, and rules to patch up loopholes that can be exploited by accounting officers, but in doing so open up more loopholes to exploit the new rules. Standard setters have tended to ignore this conundrum by positing an ex ante, objective independent economic real economic income that can be accessed by diligent GAAP (rule) following accountants, and the poststructuralist perspectives in Parts IV and V, thus presenting a legitimacy claim to the profession's autonomy, power, and economic monopolistic opportunity [Lee, 2006a, 2006b]. Mouck [2004, p. 525] concurs, "The job of standard-setting bodies … can be characterized in terms of continually amending the rules in an effort to keep 'the game' within the bounds of acceptable perceptions of reality."

Although the above poststructuralist philosophical approach stands in contrast to Frankfurt's modernistic, structuralist perspective, his clear and concise articulation of the BS and BS concepts shed a new light on the nature of accounting reports of earnings and the nature of accounting practices today. They are valuable for the accounting institution at large in two major ways. First, they capture the essence of much of today's reports of earnings and the state of

mind of accounting officers who prepare them. Secondly, and more importantly for purposes of this essay, they neatly articulate the long-standing and pretty much "taken-for-granted" and "goes-without-saying" philosophy adopted by standard setters, empirical researchers, and accounting teachers alike. Thusly, Frankfurt's concepts open up a space for a poststructuralist critique of the realist philosophical position. They help to bring into the spotlight the curious conundrum presently facing the professional accounting offices and standard setters that, on the one hand, the latter hold staunchly to the idea that reports of earnings, except for fraudulent ones, are reflections of real objective increases in economic wealth, but on the other hand, these officers manage and manipulate these reports to satisfy the expectations of current and potential investors. It also seems fair to say that accounting standard setters in general and corporate accounting officers seem oblivious, except in a very naïve way, to the deeper philosophical debates and dimensions surrounding their pronouncements.

This essay, then, aimed to unsettle standard setters' deeply ingrained underlying realist philosophical underpinnings that rest on the ontological assumption that real economic income exists independently and prior to its representation or capture in official accounting reports and its epistemological assumption that positivism is the proper means for capturing this reality. Instead, this essay advocated a radical philosophical paradigm shift for developing accounting concepts and GAAPs. Thus, Frankfurt's philosophical analysis of BS can open a spacey reexamine of the philosophical presuppositions of the authoritative accounting literature and, instead of seeing accounting rules as quasi-scientific, to see them as contested discursive formations. It means dropping the habit of assuming that accounting language is a neutral medium for rendering objective accounts of extra linguistic economic truths about earnings. It means that we should stop teaching accounting mainly as a technical methodology including how to apply CAAP to provide an ex post information system that presents facts about an ex ante real world of the enterprise to decision makers, but as a linguistic meaning construction process such as a unique Wittgensteinean language game. It also means dropping the "true and fair" clause in the auditors' report and simply require attesting that the statements have been prepared to conform to current promulgated GAAP and concepts. Finally, in general terms, it means shifting from a philosophical base of realism and correspondence theory to a poststructuralist philosophy resting on the understanding that accounting truths about earnings and income are made, not found.

**Notes**

[i] See Deloitte GAAP text [August, 2006] for a summary of the recent endorsement of these concepts by the Joint Board project members.
[ii] The terms earnings and income are used interchangeably in this essay.
[iii] Frankfurt is a distinguished professor emeritus of philosophy at Princeton University and has published extensively over the years in learned journals. These small books became best sellers.
[iv] The term earnings will be used as a generic term to refer to net income, income, profit, and comprehensive income, with the latter deemed to be the most accurate. The differences between these terms are ambiguous. Most corporations highlight two items of income in their financial statements – earnings [or net income] and earnings per share. Earnings per share is defined in most accounting standards as income available to shareholders divided by the weighted average of shares outstanding during the reporting period. To further complicate things, two ESP's are required while comprehensive earnings per share reporting is not required but can be reported as supplementary information in most jurisdictions.
[v] See also *American Accounting Association*, 1936.
[vi] Google Corp's recent experience is a telling example of this importance. On July 19, 2007, after the close of the stock markets, Google reported a second quarter net income of $2.93 per share, a 28 percent increase over the same period in 2006. This, however, fell seven cents short of the $3.01 that Wall Street expected. Within minutes investors sold off shares in after hours trading, reducing its value by $42 per share [$5 billion market capitalization]. "Shares of Google had risen steadily in recent weeks, in part, on speculation that the company, which does not provide guidance about its expected financial performance, would surpass Wall Street estimates" [*The New York Times*, Friday, July 20, 2007].[vi]
[vii] See Heron and Lie [2007].
[viii] See Hines [1991] for a critique of the FASB body of SFAS and SFAC up to 1990.
[ix] This realist assumption has been challenged by several scholars including Chua [1986], Sterling [1988, 2003], Lukka [1990,] Archer [1998], Macintosh, Shearer, Thornton and Welker [2000], Alexander & Archer [2003], and Mouck [2004].
[x] These are: 1. *Nonrecurring or special charges* [Earnings measures such as "Pro-Forma Earnings" and "Street Earnings" illustrate how investors try to cope to identify a much-desired, but all too often elusive, measure of a firm's permanent earnings.] 2. *Inconsistent and arbitrary capitalization rules*. [These allocations build in arbitrary aspects without a conceptual foundation.] 3. *Arbitrary complexity in certain standards*. [Arcane and difficult to comprehend standards.] And 4. *Ambiguous concept of Other Comprehensive Earnings*. [A proliferation of nonrecurring items inevitably leads to questions about the scope of Other Comprehensive Income.] [Ibid. pp. 272-273].
[xi] Solomons [1991] argues this view likening accounting to a telephone as a neutral medium. Tinker [1991] refuted this view arguing that the truth of accounting lies in its political motivation and effects.
[xii] As Chua [1986] observed, the chief characteristic of mainstream accounting thought is the adoption of a realist ontology.
[xiii]As Geiger & North [2006] report, a change in CFOs frequently affects earnings management practices.
[xiv] See Baker and Hayes [2004] for specific examples of such manipulations in the Enron case.
[xv] A CFO who repeatedly fails to meet earnings benchmarks is seen as either a poor forecaster or an incompetent executive; as one CFO reported, "I miss the target, I'm out of a job" [2005b, p.6].
[xvi] Such credibility with the market, given a measure of reassurance due to standard setters' philosophical emphasis on reporting reality, might be a reason for a stock's price to bubble based on inflated and unreasonable expectations until the inevitable bubble burst. I am thankful to one anonymous reviewer for this insight.
[xvii] "Quality earnings" seems to refer to ability to report steady increases in GAAP earnings for a period of time.
[xviii] This practice is known as the "under-promise and over-deliver" unwritten rule [2005a, p. 42].
[xix] See also Cotter, Tuna and Wysocki [2006] for analysts' involvement.
[xx] "One CFO characterized such decisions to meet earnings targets as the 'screw driver' effect, you turn the screws just a little bit so it fits" [2005a, p. 29].
[xxi] L. C. Cohan, *Wall Street Journal,* May 6, 1991; quoted in Richardson et al., 2004, p.889.
[xxii] There can be some *real* economic consequences of this game. For example, company executives and analysts gain, at the expense of "outsider" shareowners.
[xxiii] See also Cotter, Tuna and Wysocki, 2006.
[xxiv] Their pooled time-series cross-sectional sample included 53,653 firm-quarter observations for the period 1984-2001 for insider trading and 158,089 for forecast pessimism. Fogarty and Rogers (2005), p. 349, support this "guidance thesis," concluding that their research "provides evidence that analysts are heavily dependent upon the information that managers control, and therefore do not function as an independent opinion."
[xxv] U.S. House of Representatives Subcommittee on Capital Markets, Insurance & Government Sponsored Enterprises of Financial Services, Hearing on Promotion of International Capital Flows Through Accounting Standards, June 7, 2001.
[xxvi] Newberry [2003, p. 333] supports this position regarding the IASB's and the FASB's conceptual frameworks [CF], "Accounting standard setters, ostensibly acting in the public interest, project an appearance of applying a coherent technical body of knowledge to derive neutral accounting standards. A key problem for accounting standard setters is that the CF is incoherent, at least partly because it conceals a long-standing and still unsettled battle over concepts of income: the measurement of performance concept, and the enhancement of wealth concept. Worse still, it is no longer clear that standard setters are fully aware of that battle or even understand the CF."
[xxvii] These include: the FASB and its predecessors, the Accounting Principles Board, the FASB's Committee on Accounting Procedures, the FASB Emerging Issues Task Force [EITF], and the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. While the Securities and Exchange Committee [SEC] alone has a vast number of core rules, including Regulations S-X and S-K, more than 100 specific Staff Accounting Bulletins, nearly 50 Financial Reporting Releases, and hundreds of Accounting Series Releases. Herz [2005] points out that, "the SEC also proclaim their latest views on

particular reporting and disclosure matters through speeches and comments at EITF and other professional meetings, which, while not official, effectively carry the same weight for anyone trying to comply with all the rules" [pp. 4-5].

[xxviii] As Hines [1988] argues, accounting can in some circumstances "create reality".

[xxix] Gordon [2002 also notes that professional accounting firms provide consulting services on tax structuring transactions and also audit the resulting tax accounts reported in the financial statements and concludes that this creates, " … a culture that undermines the capacity of the accountant to make the arm's length judgment about the public financials that must 'present fairly' the underlying economic reality" [p. 1238].

[xxx] A striking case in point is the much relied on "off-balance-sheet-financing" where organizations structure transactions and relationships to avoid their explicit recognition in their financial statements by placing assets with future cash flows in a freestanding legal entity with a very limited scope [a special purpose entity] but continue to operate the asset [Demski, 2003. p. 54].

[xxxi] See also Gibbins and Newton [1994] and Salterio and Denham [1997] for evidence of such negotiations.

[xxxii] The term BS is used instead of the more offensive words bullshit and bullshitter.

[xxxiii] Frankfurt's philosophy is in the modernistic, logical positivistic vein. This comment seems to be a [not so] subtle jibe directed against poststructuralists philosophers such as Derrida, Foucault, Baudrillard, Davidson, and Rorty who have sidelined logical positivism and the belief that seeking truths is what philosophers should be doing.

[xxxiv] GE's 2005 *Annual Report, Introduction* is an accounting example of humbug. It reads, "Even as the world seems to grow smaller, the challenges – and opportunities – of a global economy are bigger than ever. And that's good news for GE. In a more complex world, GE's size is an advantage. GE dreams big ideas, tackles big problems and anticipates big growth now and in the years to come. GE is a big company. We think big is beautiful." This surely seems like humbug. At the time GE was trying to deflate analysts' worries that GE was too big to continue to deliver 12 to 16 percent increases in EPS per year.

[xxxv] A list of recent such "scandals" would include Enron, WorldCom, Tyco, AOL Time Warner, Adelphi Communications, Bristol-Myers Squibb, Global Crossing, Kmart, Xerox, Merck, Mirant, Nicor Energy, Pereque Systems, and sundry energy trading companies like Dynergy, El Paso and Reliant Energy. It is likely that a similar list could be compiled for companies in Europe, Asia, and other parts of the world.

[xxxvi] This humbug may have been aimed at promoting a higher P/E ration since GE's stock GE's stock price has been stagnant since 2001 while reported earnings have increased steadily during that period.

[xxxvii] Frankfurt [2005] calls his type "the bullshitter" but he does not mean it in the usual pejorative sense

[xxxviii] As Lev [2003, p. 45] notes quoting the *Wall Street Journal*, [August 13, 2002, p. C3], many critics have noted, for instance, that the real scandal at Enron Corp. was not how much of the now-collapsed energy company's accounting shenanigans were legal." Lev blames "the poor quality" of GAAP rules, particularly those concerning the 3 percent ownership rule. And even in the infamous LJM-Chewco SPE situation *was* reported in Note 16 of Enron's 2000 audited financial statements. Similarly, Enron accountants did not lie as such regarding Enron's off-balance sheet debt - the amount of unconsolidated debt of $20.6 billion was also disclosed in Note 8 of the 2000 Enron financial statements.

[xxxix] See Mouck [2004] for a detailed discussion of the socially constructed nature of accounting reports of income, based on Searle's [1995, 1998, 2003] social construction of meaning philosophy.

[xl] Ironically, many large global enterprises are required to present their financial statements in both IASB and FASB GAAP format with a reconciliation of the differences, yet both are vouchsafed as true and fair and present fairly respectively.

[xli] Briloff [1990, 1994] refers to this as recovering the profession's sacred, enshrined covenant with society granted in the statutory monopoly given to professional accounting institutions.

[xlii] See Beaver [1989, pp. 162-163].

[xliii] . Perhaps the "real" scandal is that such practices are the order-of-the-day and so cries of "scandal" serve to dissimulate this. See Baudrillard [1988, pp. 171-174] for a discussion of such scandal effects and Macintosh & Shearer [2000] for its accounting implications.

[xliv] I am thankful to an anonymous reviewer for this insght.

[xlv] [see Zeff, 1982, for a review of earlier debates about truth and accounting]

[xlvi] As Lee [2006, p. 11] observes, "FASB's use of terms such as reliability, faithful representation, and economic substance is sufficient to infer at least and unconscious realist approach to accounting."

[xlvii] The FASB SFAC No. 2, for example, likens accounting to map making where the map represents real geographical things that exist in the real world. The correspondence between the representation and the thing being represented is seen to a central tenet of accounting. While the IASB Conceptual Framework Project [June 22, 2005] states that, "*Faithful representation* of real world economic phenomena is an essential qualitative characteristic, which includes capturing the substance of those economic phenomena" [p. 18]. Moreover, "Representations are faithful where there is correspondence or agreement between the accounting measures or descriptions and the economic phenomena they purport to represent – when the measures and descriptions are verifiable and the measuring is done in a neutral manner" [p.18].

[xlviii] These include Nietzsche, Heidegger, Derrida, Davidson, Foucault, and Rorty.

[xlix] As Rorty [1989, p. 8] explains, this would be "claiming to know what they themselves claim cannot be known".

[l] These include FASB SFAS No. 130 [1997], IAS #1 [revised 6 September 2007], and the most recent Joint IASB/FASB harmonization project reports.

[li] It is noteworthy that the American Accounting Association's Financial Accounting Standards Committee objected strongly to FASB's [*Accounting Horizons,* July 6, 2006], developed jointly with the IASB, proposed endorsement of fair value accounting arguing that "fair value [such as mark-to-model and present value determined] numbers are rarely trustworthy" [p. 230], and that

the FASB's Preliminary Conceptual Framework "Is a fundamentally flawed approach and should not be adopted in its present form" [p.230]. Yet there seems to be no way of stopping it given current momentum by today's standard setters.

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