understanding the role of accounting in the public sector. The concept of accountability derives from the concept of freedom and autonomy of a person. Increased freedom, self-government, and autonomy in Poland call for steady improvement of accounting as an instrument for the realization of the public accountability of entities, organizations, and institutions through a reliable, solid system of accounting for public property. This is the central theme of the entire study.

Another valuable feature of this book is the good theoretical presentation of measurement conventions. Accounting is a system of economic measurement, but this obvious fact requires an appropriate theoretical foundation. The author provides such a foundation when he sets out bookkeeping theories, the cash and accruals conventions, and their various modifications. He also addresses the issue of the reliability and relevance of accounting measures and information. The definitions presented frequently in the text are very clear, well-considered, and formulated with great precision, both with regard to existing economic categories and to many new ones. The validity of classifications set out by the author (according to various criteria: time, liquidity, legal restrictions, nature, and function of assets) has already been verified in the practice of accounting and management. Now it has achieved theoretical validation in the book by W.A. Nowak.

In conclusion, I would like to emphasize the fact that this study is an outstanding scientific achievement. It is the first work in Poland providing a theory of public sector accounting. The author has successfully coped with exploratory, classification, and explanatory problems, which requires a really vast knowledge and great experience.

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This book is a collection of Professor Staubus’ writings for many years—articles and some chapters from his books—interspersed with recent commentary. It has, of course, an autobiographical flavor. It is part of the series on accounting history edited by the beneficent Professor Brief; it is published by Garland in photostat form, which has now become remarkably elegant.

A collection of this kind can hardly claim to be succinct or free from repetition. But its argument is clear and forceful, and it ranges over much important ground.

The argument concerns decision-making. Professor Staubus maintains that accounts achieve maximum helpfulness when they aid this process. He tells us that he was feeling his way toward this view in the 1950s, and developed it further in following years. It was not widely held at that time. He can justifiably claim to have been a standard bearer in the campaign for its adoption.

It suddenly began to win converts in the 1970s, largely because the Trueblood Group espoused it with enthusiasm: “the basic objective of financial statements is to provide information useful for making financial decisions.” This view has since (a “dead of night
conversion”) become common. Looking back, David Solomons wrote: “It seems barely credible now that such a conclusion could ever have been considered controversial. Yet when the FASB made a survey of reactions to the Trueblood Group’s objective in 1974, only 37% of respondents approved the ‘usefulness’ objective.”

Theorists and standards boards have an obvious reason for gratefully seizing on “usefulness” as an aid to their work. Much of this is concerned with choice between various accounting figures and practices (historical vs. current values, depreciation methods, Fifo vs. Lifo, etc.). Choice can be made easier by looking through the spectacles of investors who seek help with their decisions.

Professor Staubus developed his views further in years following the 1960s. He decided that investors’ decisions must mainly hinge on predictions of cash flows: “the property of an asset that financial statement users would most like to know is its cash flow potential.” Ideally, investors would be given a cash budget showing all future cash distributions to equity-holders; but “accountants are not omniscient,” and so cannot provide such a budget. They provide balance sheets instead.

Many pages of the book are devoted to cash flow potential. They stress that different users will be interested in different sections of the accounts. Short-term creditors will try to predict capacity to pay in the near future; so they will study the short-term balance sheet items (defined as being within three months of maturity) and those items’ rate of net recurring flows; earnings figures are less important. Investors in fixed-interest securities also study liquidity, but must predict the likelihood of income payments being maintained; they will therefore look at earnings and tests such as times-interest-earned.

Common stockholders may be less concerned with immediate liquidity problems than with the long-term future; to them, an accurate earnings account is more important than the cash flow statement. However, the book quotes Myron Gordon’s words: “the fundamental proposition of capital theory is that the value of an asset is the future payments.”

To give maximum aid, lists of monetary items should show the times and amounts of expected movements. If future times are remote, the amounts should be discounted (but then the actual payments should be noted as well).

The book deals with cash flow statements at some length, and underlines their importance and limitations. Historical flow figures can be measured easily and perfectly. But they can be manipulated (e.g., by maneuvering payments of accounts payable), and may be affected by erratic items; and they are not always reliable guides to earnings and wealth. The statements should separate recurring from non-recurring items.

This section of the book will leave readers with an enhanced appreciation of cash flow statements and liquidity problems.

The book points out that several kinds of flows can be interesting. It lists:

1. Cash flow.
2. Quick flow (change in short-term monetary assets).
3. Working flow (change in net current assets).
4. Earnings flow (change in net assets due to recurring operations).

It uses a set of helpful examples to show how type (1) can be gradually expanded until it blossoms into (4), an earnings statement.
Future flows will be affected by inflation. Professor Staubus deserves credit as a pioneer in dealing with this topic; he wrote on it while it was still largely ignored, and introduced it into his narrative whenever appropriate. While inflation’s abatement has no doubt been a social blessing, it is regrettable from the teacher’s viewpoint; inflation accounting was admirable training in analysis and economic thought. The book gives clear arithmetical examples of inflation’s effects on earnings and assets (though it might perhaps have put more stress on the real appreciation of fixed assets, and the consequent difficulties of dealing with real depreciation and gain).

Standards boards and writers have become increasingly preoccupied with questions of reliability, relevance, timeliness, etc. Perhaps because it does not lend itself readily to the discovery of principles, this seems a somewhat arid area. The book settles for a multiple criteria approach.

The book very properly devotes many pages to asset valuation (historical cost, net realizable value, etc.). It explains the merits and demerits of each measure at some length.

Discussion of asset value would be much clarified if it started by reminding us of Adam Smith’s teaching: “the word ‘value’ has two different meanings. . . . the one may be called ‘value in use’; the other ‘value in exchange’.” Writers and standards boards tend to blur the distinction. Accounting very wisely values assets at “value in exchange,” i.e., historical or current cost (save where an asset is not worth this, and so “value in use” must be substituted). “Value in use” depends on an owner’s highly subjective guesses at future cash flows; it must often be helpful in his management calculations, but would cause enormous confusion and dispute if used widely in accounts, e.g., because many assets work jointly with their neighbors.

Unfortunately, American writers have not appreciated the great advantages of the deprival value approach, and so their rules on value must, to British readers, seem ill-disciplined. By comparing an owner’s position (a) in possession of the asset, and (b) if deprived of it, a writer can formulate a consistent set of rules: current value is replacement cost save where the asset is not worth replacing. Professor Staubus gets near to this approach when he reviews the effects on a firm if an asset disappeared, but he does not press the idea home. He is also on target when he describes current replacement cost as “a logical surrogate for future purchase cost saved”; in accounts, usually an asset’s task is to reduce outflows, not earn inflows.

Accountants should surely beware of reasoning that links an asset’s value with physical attributes, flow sequence, etc. We esteem an asset not because of such attributes but because of its power to give us utility. Accounting rules based on the attributes can be defended only on grounds of ease and convenience.

Accounting defines revenue as increase in the conventional asset pile. The figure is acceptable enough for routine purposes, but disaffected theorists can challenge it easily (e.g., which measures should be used, and is research an asset?). The ideal figure is Hicks’ ex ante increase in cash flows; and this, alas, is impossible to predict or verify.

The book ends rather sadly. Decision-usefulness theory is not being accorded the respect that it merits. It has not won complete acceptance by the FASB. Preparers of accounts have had considerable success in limiting its influence. And even teachers have not shown much interest in it.
A devil’s advocate could perhaps proffer three reasons for this muted enthusiasm:

1. Decision-usefulness depends on prediction, and mankind is not able to predict with certainty. The crystal ball is an imperfect instrument. We are wise to budget—but also to accept that our figures may turn out to be wildly misleading.

2. Accounts may indeed be helpful background material for investors. But how far back is background? If I am writing about social problems in Spain, a map of Spain may conceivably give background to my work, but its precise benefits may be hard to detect. The role of background material is unclear.

3. Accounting historians remind us that the fundamental task of accounts has been, not to measure wealth and income, but to keep track of debtors, creditors, and cash. This is still their main task; without it, business would collapse. But we have not been content with this immense achievement. Double entry does not demand intellectual brilliance, and its practice and teaching can get boring. So we are now trying to graft extra uses onto it, by promoting it into an aid to management and investment problems—something for which it was not intended and is not particularly suited. Investment-decision theorists are trying to get more juice out of the well-sucked orange. We may wish them well but they have limited expectations.

An interesting book. It gives one much to argue about.

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