
ACCOUNTING FOR INVENTORY: A SYNTHESISING OF ACCOUNTABILITY AND NEOLIBERALISM

A research report submitted by

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II. List of abbreviations and acronyms

Abbreviation/Acronym	Description
Big Four	The four largest assurance firms in South Africa: Deloitte, EY, KPMG and PwC
CU	Currency unit
FASB	Financial Accounting Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
JSE	Johannesburg Stock Exchange
NRV	Net realisable value
OCI	Other comprehensive income
PPE or PP&E	Property, plant and equipment
SOCI	Statement of comprehensive income
SOFP	Statement of financial position
SOPL	Statement of profit or loss
WACC	Weighted average cost of capital

ABSTRACT

The literature on accountability and neoliberalism identified friction between these two paradigms, resulting in trade-offs in financial reporting standards. The trade-offs have resulted in standards which lack theoretical consistency with the Conceptual Framework, leading to less useful financial information being presented to proponents of both the accountability and fair value paradigms. The aim of the research is to investigate whether a dual-reporting framework, using the features of each paradigm, would be possible. The research was performed using inventory as an illustrative example. The findings from 13 interviews conducted with financial reporting experts indicate that a dual-reporting framework is possible. Additionally, the research uncovered a possible conceptual basis for other comprehensive income, while simultaneously proposing an alternative method to account for inventory, incorporating fair values. The research provides a valuable contribution to synthesising the tension between accountability and neoliberalism, together with increasing the value of information presented to users regarding fair value movements in inventory.

Key words: accountability; cost-basis; fair value; financial reporting; IASB; inventory; neoliberalism; stewardship

CHAPTER 1 – INTRODUCTION

1.1 Context

Accounting has, since the 1980s, been characterised by the tension inherent in communicating disparate economic phenomena to groups of users whose needs regarding the information contained in financial statements differ. This has realised itself as a tension between accountability and neoliberalism paradigms (Benjamin & Stanga, 1977; Francis & Schipper, 1999; Ravenscroft & Williams, 2009; Whittington, 2008; Zhang & Andrew, 2014). The result is a network of financial accounting standards which lack both logical and conceptual consistency and have become increasingly rules-based. This has led to economic phenomena lacking accounting guidance due to the unfeasibility of developing rules for every possible transaction or economic event.

It is argued in the literature that, on the one hand, the failure of accounting to adhere to a single referant has contributed towards contradictions in the standards (Ravenscroft & Williams, 2009; Whittington, 2008). On the other hand, some have argued that accounting itself has been pulled away from its original purpose as a result of a changing economic order and this has necessitated accounting for phenomena which fall beyond the scope of a traditional accountability-based accounting (Barlev & Haddad, 2003; Macve, 2014; Zhang & Andrew, 2014).

The collapse of sufficiently understandable, yet nuanced, financial statements may severely hamper the free flow of capital as the ability to make appropriate decisions about how to allocate resources is hindered (Calvo & Mendoza, 2000; Kothari, 2001; Magnan, 2009; Zhang, Andrew, & Rudkin, 2012). Users may make incorrect allocation decisions due to conclusions reached from reading financial information which misrepresents the reality of an entity, resulting in accounting losing its function as a communicative instrument (Amernic & Craig, 2009).

1.2 Statement of the problem

There is no practical guidance on how the tension between accountability and neoliberalism may be resolved. Presently, the literature has merely identified the tension and suggested its detrimental effect on the accounting landscape (Maroun, 2016; Whittington, 2008) but no researcher has attempted to synthesise the two paradigms. This provides a basis for this research.

The purpose of this thesis is to develop an alternative reporting framework inspired by both the neoliberal and accountability paradigms to reduce trade-offs. This is performed using inventory as an illustrative example¹.

¹ The purpose of this study is not to focus on inventory and/or develop a specific new way of accounting for inventory, but to use it as an illustrative tool to develop an alternative reporting framework.

1.3 Contribution of the study

There is an extensive body of work dealing with the conflict between an accountability and neoliberal paradigm (see Ravenscroft and Williams (2009), Macve (2014), Zhang and Andrew (2014) and Whittington (2008)) but there is little application of accountability and neoliberalism to the accounting for specific balances and transactions. This research addresses this omission.

This study makes an important theoretical contribution by showing how the tension between accountability and neoliberalism can be resolved at the conceptual level. This is done by considering alternative accounting treatments for a common non-financial asset (inventory) and demonstrating how these can be synthesised to provide a comprehensive basis for reporting on changes in inventory levels.

At the practical and empirical level, the study provides primary evidence (from a sample of expert financial reporters and accountants) on the development of an accounting framework. These perspectives are used to generate normative recommendations which should be relevant for corporate reporters and standard-setters.

1.4 Assumptions, limitations and delimitations

Assumptions

This study assumes that accounting is developed through the interaction of sociological forces and is ultimately sociological in nature. This means that reality of accounting is, in itself, a feature of social construction and it, in turn, influences the reality of the socio-economic world (Bryer, 2000a, 2000b; Hines, 1988; Hopwood, 1987, 2000; Lukka & Modell, 2010).

It is further assumed that the tension between accountability and neoliberalism has resulted in financial information which is less useful to users, because of pragmatic trade-offs inherent in many of the standards (Whittington, 2008). Less useful information results in poorer decisions or leads to users electing not to make decisions based on such information (Murphy, O'Connell, & hÓgartaigh, 2013)

Limitations

There are several limitations to the research, particularly due to its qualitative nature:

- This research cannot consider every incidence of tension between the accountability and neoliberal paradigms and does not seek to resolve all such incidences.
- The study will not mathematically quantify the proposed benefit of the synthesis of the two paradigms or the new inventory measurement model. This may result in reduced external validity of the study (Maroun & Jonker, 2014; Ryan, Scapens, & Theobald, 2002). This limitation is a result of the nature of the research which requires normative discussion, as opposed to positivist mensuration. The quantification of such responses in turn may be of

limited use and relevance because of the complex social environment in which accounting exists (Maroun, 2012; Wallington, 2014).

- The style of the research is inspired by a grounded theory approach, is normative and interpretive in nature. Despite application of best research practice in order to eliminate bias, a risk still exists that subjectivity may play a role in the research (from the perspective of the researcher, as well as the respondents contacted) (Creswell, 2012; Leedy & Ormrod, 2010).

Delimitations

Delimitations are those factors which the researcher elects not to consider as part of his research, and these are listed here:

- The study only focuses on inventory as an exploratory tool and does not consider other economic transactions and events such as property, plant and equipment or financial instruments. This is because inventory is a relatively simple economic phenomenon and the study will not be complicated by other factors unique to those economic phenomena, such as complications arising on embedded derivatives. The research will allow for a grounded theory to be established and applied to these more complicated phenomena at a later stage.
- The study does not attempt to gauge user responses regarding the proposed dual-reporting framework. This is because the purpose of the research is to develop a model based on purposeful selection of technically competent respondents. The evaluation of the effectiveness of the model for the various user groups is deferred for future research.
- In addition, the study does not assess the practicality and appropriateness of fair value as a measurement tool (see, for example – Murphy et al. (2013) and Zhang and Andrew (2014)). This is an issue deferred for later research.

CHAPTER 2 – LITERATURE REVIEW

2.1 Theoretical framework

2.1.1 Tensions and politicisation in the accounting framework

Literature on the subject of accountability and neoliberalism is diverse and tends to focus on the relative merits and demerits of accounting according to an accountability or fair value model (Ravenscroft & Williams, 2009; Zhang & Andrew, 2014). Accounting standards setters such as the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have been in the centre of this conflict, resulting in occasionally conflicting pronouncements (Whittington, 2008).

The tension is long-running and well-documented (Macve, 2014; Ravenscroft & Williams, 2009; Whittington, 2008). It has partly informed the development of accounting standards, as well as informing the position adopted by stakeholders (EFFAS, IASB, & EFRAG, 2014). This has resulted in stresses placed on the standards settings bodies as competing user interests attempt to develop their own approach to the setting of accounting standards, with much being written on the factors which influence lobbying for changes in standards where

“...the choice of appropriate accounting regulations reflects, at least in part, a social decision whereby the regulatory bodies attempt to manage conflict between competing constituencies by selecting the most socially acceptable solution (Hornigren, 1972; Sunder, 1988; Zeff, 1978).”
(McLeay, Ordelheide, & Young, 2000, p. 79).

The factors which influence such lobbying of accounting standards setters are many and tend to focus on the political and social impacts of changes in accounting standards, as opposed to debate concerning the rational interaction of technical accounting details (Bengsston, 2011; Watts & Zimmerman, 1978). Examining these tensions is beyond the scope of this research but some of the main points are discussed here for context.

Bengsston (2011) suggests that such politicisation, at least in a European context, only really emerged following the 2008 financial crisis. As Bengsston asserts

“What started as disharmonic grunts from individual politicians and the occasional banker, turned into a serious questioning of the standards and even the *raison d'être* of the International Accounting Standards Board (IASB).” (Bengsston, 2011, p. 567).

Yet it would be a fallacy to suggest that political lobbying has not been a mainstay of modern accounting development. Watts and Zimmerman (1978) display the lobbying behaviour of management when confronted with particular accounting standards changes, while Puro (1984) introduced a principal-agent problem unique to accounting and auditing in relation to changes in standards. In effect, the ambiguities often discovered in accounting standards can be tentatively explained by the expectations various users place on financial statements (Hopwood, 1987).

The key feature to explore is how accounting development occurs within a modern context for the developmental process may well be an important factor to consider for any researcher recommending changes to the conceptualisation of technical accounting theoretically divorced from political realities. Yet what may seem to hold true in a theoretical context (i.e. that a proposed change in accounting as a discipline is a purely theoretical exercise with no impact on the political economy) will always be subject to politicised positions taken by those actors influenced by changes in accounting (Fogarty, 1994; Kwok & Sharp, 2005). As described by Murphy et al. (2013) it is really the living law of accounting – that is, what is generally accepted and approved by a group of stakeholders – which influences the manner in which accounting standards are changed.

The conflict between accountability and neoliberalism must be understood within the context of a politicised global structure and, rather than being a conflict on its own, is reflective of strife within the global economic and political order (Harvey, 2006; Power, 2010; Zhang & Andrew, 2014; Zhang et al., 2012). One begins to perceive standards development as a fully rational and economic phenomenon is a fallacy (Murphy et al., 2013; Ravenscroft & Williams, 2009). Murphy et al. (2013) argues that accounting has moved away from a single referant and is no longer subject to, in Murphy's explanation, any natural law. Ravenscroft and Williams (2009) and Hopwood (1987) argued, although in a different manner, that accounting reveals almost ethereal economic practicalities ensconced within an organisation, resulting in "imaginary worlds made real" (Ravenscroft & Williams, 2009, p. 770). In Hopwood's case, this was merely the development of organisational accounting which allowed the organisation to impact the social world. According to Hopwood

"It [accounting] is seen as being implicated in the forging, indeed the active creation, of a particular regime of economic calculation within the organisation in order to make real and powerful quite particular conceptions of economic and social ends." (Hopwood, 1987, p. 213).

The reflective nature of accounting ensures that the manner in which it develops is a purely social construct and not predictable, based on economic rationality (Ravenscroft & Williams, 2009). Therefore, the lobbying behaviour of actors in the accounting standards setting process should be interpreted as a manifestation of the impact accounting has on the social order, as opposed to rational and deterministic positivism by these actors. While Puro (1984), Watts and Zimmerman (1978) and Kwok and Sharp (2005) are able to develop empirical models to explain and predict behaviour of actors in relation to accounting development, such research fails to fully understand the social nature of such interaction.

Our identification of how accounting develops can be divided between positivist theory as espoused by Watts and Zimmerman (1978), Puro (1984), and Kwok and Sharp (2005), and the living law theory as espoused by Hopwood (1987), Ravenscroft and Williams (2009), Murphy et al. (2013), and Carruthers (1995). This reflects a difference in determining the direction in which accounting standards may develop. Watts and Zimmerman (1978) suggest that the direction of accounting standards is based on the ability of management to maximise their marginal utility, whereas Murphy et al. (2013) and Ravenscroft and Williams (2009) argue that accounting should develop as a living law, rooted in providing an account of management's historical actions.

Prior research seems to suggest that accounting is concerned with the social structures which exist in society and that accounting and society can be seen as a continuum with changes in accounting impacting the social order and vice versa (Carruthers, 1995; Hopwood, 1987; Macve, 2014; Murphy et al., 2013; Ravenscroft & Williams, 2009; Whittington, 2008). Fogarty (1994) and Bamber and McMeeking (2015) have discussed the influences on actors within the standard setting process and how this, in turn, influences the setting of standards. Fogarty (1994) argues that conflict exists within the standards setting process in accordance with conflictual theory as determined by Wildavsky (1964) and Nimmo and Unga (1967). Each of these writers suggests that conflict can be defined as the 'conflict of preferences to determine policy' or 'the conflict that occurs when participants with different desires seek the realization of incompatible objectives', respectively, and so the conflict is fundamental, rather than structurally functional (Fogarty, 1994, p. 207).

When contemplating the nature of conflict, some researchers deem such conflict to be as a result of humans pursuing their own rational ends of maximising their own marginal utility (Puro, 1984; Watts & Zimmerman, 1978). Yet the reality seems to appear different, as even Puro suggested it was difficult to identify a causal link between rationality and utility maximisation (Puro, 1984).

2.1.2. Definitions of accountability and neoliberal accounting practices

Accountability and the 'living law'

Some researchers have argued that the primary purpose of accounting is accountability, requiring a reckoning of past events so as to assess the performance of management better (Basu, Kirk, & Waymire, 2009; Horton & Macve, 2000; Murphy et al., 2013; Ravenscroft & Williams, 2009; Watts & Zimmerman, 1978).

The accountability approach emphasises reliable, historical information so as to allow users to assess management's ability to utilise resources. In addition, to also make use of past, reliable information to make predictions about the future (Chen, 1975; IASB/FASB, 2010). The IASB describes this as

"To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders, and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources." (Conceptual Framework. BC1.27-28, 2010)

The approach focuses on current rather than on future providers of capital (Whittington, 2008; Zhang & Andrew, 2014). Part of this difference relates to the idea of prudence which is a key feature of accountability. Prudence is incorporated in the financial statements since it supposes that users are risk-averse (EFFAS et al., 2014; Macve, 2014; Maltby, 2000). Similarly, the accountability approach is grounded in the need to mitigate agency costs and avoid the premature reporting of gains (Gjesdal, 1981).

Gjesdal (1981) articulates that the accountability approach is incorporated purely for the purpose of solving the agency problem and so any accounting in terms of the information objectives of the principal (i.e. the current provider of capital) must be targeted purely at that user's needs (Gjesdal, 1981). Gjesdal cites Rosenfield (1974), who states that

"An objective of financial statements is to report on the control and use of resources by those accountable for their control and use to those to whom they are accountable." (Rosenfield, 1974, p. 126).

Beyond this, Ijiri (1971) argues that the unique feature about using historical cost accounting as opposed to current value accounting is that the information used to prepare the financial statements is indisputable because it happened in the past, making it more reliable.

Neoliberalism and fair value accounting

In contrast to accountability, neoliberalism is a fairly recent phenomenon. Underlying the neoliberal approach is an emphasis on the fair value of a company's statement of financial position, rather than the statement of comprehensive income (Zhang & Andrew, 2014).

Neoliberalism focuses on factors exogenous to an entity to develop a picture of the financial position at the reporting date. This is in contrast to the accountability paradigm which stresses the use of entity-specific information and factors endogenous to the entity, to develop a representation performance (Whittington, 2008).

For a market-based value approach to work, neoliberalists assume that the market is efficient, so making use of market-based values inflects a degree of subjectivity into the financial statements if markets are imperfect (Georgiou & Jack, 2011). Reporting changes in these market values provides an indication of economic performance which is more relevant than cost-based measures. The automatic calibration of market measures also improves users' ability to predict future cash flows and compare the financial position and performance of different entities (Power, 2010).

Power (2010, p. 206) argues that the transformation of the balance sheet from a 'juridical into an economic institution' required a higher degree of use of exogenous, market-based values which limited management discretion so as to paint a clearer and more comparable picture of an entity.

Harvey (2007) has written extensively about the changes that neoliberalism has introduced to the global economy, describing it as an increased financialisation of the economic order with more importance placed on financial institutions. He further writes that in a neoliberal global order:

"State interventions in markets (once created) must be kept to a bare minimum because the state cannot possibly possess enough information to second-guess market signals (prices) and because powerful interests will inevitably distort and bias state interventions (particularly in democracies) for their own benefit." (Harvey, 2007, p. 23)

Dore (2008) argues that the financialisation of the economy has resulted in sometimes excessive risk-taking and, the creation of complex financial instruments. This has led to a preponderance of

statement of financial position values which have very few tangible or 'real' assets underpinning them, supporting Ravenscroft's view that accounting has become increasingly abstract as the global economy moves away from traditional means of production (Dore, 2008; Krippner, 2005; Ravenscroft & Williams, 2009). Barlev and Haddad (2003, p. 36) indicate fair value accounting as reflecting "the processes of globalization and international economic integration" which describes its impact on accounting as more or less inevitable and something which may supersede historical cost accounting.

The resulting impact on accounting has been a movement towards including forward-looking information in the financial statements. What was once a set of financials which emphasised the past over the future has been altered as the global economy has shifted towards financial instruments as the primary assets of global exchange (Zhang & Andrew, 2014). This means that the focus of the accounting is no longer on whether or not the managers have executed their stewardship duties with reasonable care and skill but rather whether the financial statements display a relevant picture of the entity which provides useful information for future providers of capital (Ravenscroft & Williams, 2009; Zhang & Andrew, 2014).

Table 1 describes the key features of the two paradigms by indicating the relevant principles underpinning each of them.

Table 1: Table summarising the key components of each framework

Accountability	Paper(s)	Neoliberalism	Paper(s)
Historical cost improves reliability.	Rosenfield (1974); (Whittington, 2008)	Fair value information is value-laden.	Barlev and Haddad (2003); Jones (1988)
Smooths incomes and expenses, and uses unwinding of the discount.	Booth and Walker (2003); Rayman (2007)	Updates fair values on an annual basis.	Cairns (2006); (IAS 2, 2003b; IFRS 9, 2014)
Endogenous variables have supremacy over exogenous variables.	Basu et al. (2009); IASB (2010); (van Zijl & Maroun, 2017)	Exogenous factors are relevant to assessing the future outlook of an entity.	Barth (2006); Power (2010)
Prudence is a key characteristic.	Maltby (2000)	Neutrality is a core principle of the financial statements.	EFFAS et al. (2014)

2.1.3. The tension between accountability and neoliberalism

There has been some mention of the tension between accountability and neoliberalism in formal research (Ram, Maroun, & Garnett, 2016). Murphy et al. (2013) conclude that the failure of accounting to adhere to a single referant means that the tension between accountability and

neoliberalism cannot be synthesised. The authors argue that the natural form of accounting is one of accountability where its social function pre-dated the accounting profession. As such it is a natural element of the living law of accounting, a mechanism by which to resolve the agency problem (Murphy et al., 2013). Macve (2014) explores this concept further, going into detail about the manner in which conservatism evolves to meet a specific business need.

Basu et al. (2009) deserve to be quoted at length as they explain their conceptualisation of the manner in which conservatism and accountability in financial statements are immovable pillars in a more tangible manner to that explored by Murphy et al. (2013)

“...historical cost accounting records and today’s exchange agreements are like two blades of scissors that have become increasingly effective together over time through co-evolution. Institutional changes such as ‘fair value’ accounting that overwrites historical records of consummated transactions and erodes the quality of memory inherent in records may make the scissors less effective unless a matching blade is produced. Contracts and regulations rely on a set of common expectations about how performance is measured, and wholesale changes to this performance measure may entail unintended consequences. One ultimate consequence of less effective recordkeeping may be the decay of economic institutions responsible for wealth generation in modern developed societies.”(Basu et al., 2009, p. 910).

The arguments by Basu et al. (2009) are, to some extent, accepted by Macve (2014), who writes that humans have a documented predisposition towards being risk averse and that focus on building trust means accountability is more natural as an accounting framework. However, he counters this argument with the valid identification that not all humans react rationally and that social impulses and emotions result in “risk-seeking adventures”. As such, “many legal institutions are designed to restrain individuals’ aggressive impulses and reactions.” (Macve, 2014, p. 18).

Yet what lies at the heart of the conflict between accountability and neoliberalism is the usefulness of information required by users (EFFAS et al., 2014). It is within this ambit that one begins to understand the tension, as different users have different requirements, such as the ability to look forwards or backwards as necessary. The distortions which manifest themselves in the standards appear to characterise the stresses between some users requiring forward looking information and others requiring historical information (Whittington, 2008).

Emerson, Karim, and Rutledge (2010) indicate that fair value accounting was necessarily promulgated by a desire to provide more relevant and accurate financial information to users of the statements, particularly as the nature of businesses shifted towards higher market integration and financialisation. Barlev and Haddad (2003) support this view, suggesting that it was the financialisation of the global economy which made it possible to measure the fair values of assets and liabilities. This removed the constraints associated with historical cost accounting in terms of valuing assets and liabilities. Jones (1988) identifies the need for financial instruments to be measured more accurately due to the shortcomings of historical cost accounting and that fair value accounting provides more relevance to users of financial statements

Criticism of fair value accounting as opposed to historical cost accounting tends to be most severe among the available literature, which find faults in the underlying assumptions associated with perfect markets and how these assumptions distort the reliability of financial statements (Harvey, 2006; Zhang & Andrew, 2014). Benston (2006) and Zhang and Andrew (2014) among others, argue that fair value accounting has increased volatility in the market by forcing changes in uncontrollable, exogenous variables to be reflected in the income statement, forcing the accrual basis of accounting as advocated under the accountability model to fall apart. As Zhang & Andrew write

“...a strategic repositioning of accounting practice as part of the architecture of neoliberalism and as a facilitator of financialisation...and that the improvements (however subtle) are deeply illogical.” (Zhang & Andrew, 2014, p. 18)

The argument goes that the introduction of fair value accounting, rather than being a result of a movement towards a neoliberal society, is interwoven with the fabric of such a society, helping to support it and giving it legitimacy. The conclusion that Andrew & Zhang reach is that such a fabric is a façade based on questionable assumptions and assertions (Zhang & Andrew, 2014). As Lucarelli (2012) argues, the financialisation of the global economy in some way contributed towards the global financial crisis of 2007-2008, and this financialisation, as argued by Zhang & Andrew, has been supported by fair value accounting. Such criticism is supported by Ravenscroft and Williams (2009) who write that

“Models constructed on false assumptions create an unreality that cannot provide the factual data needed for accountability-based reporting.” (Ravenscroft & Williams, 2009, p. 776)

The movement towards fair value accounting, therefore, seems to create an increasingly obscure picture of the financial world. Because accountants are not grounded in one single unifying referent, they are able to appropriate a greater level of hegemony and alter the so-called rules of accounting as they see fit (Ravenscroft & Williams, 2009).

Ravenscroft and Williams (2009) write that the only users who benefit from the fair value accounting framework are traders who, they argue, form only one of the stakeholder groups to which management should be held accountable. Other stakeholder groups are prejudiced by the movement towards fair value accounting.

Accounting is based on principles which are predominantly ethical and political and not scientific, and it is difficult for accountants to reconcile what might happen in the future with their instinct to maintain as much objectivity as possible (Ravenscroft & Williams, 2009). Cunningham (2005) writes that the movement to fair value is a more ‘forward-looking, less reliable, fraud tempting emphasis on prognosis’. Rayman (2007) argues that the IASB and FASB have failed really to consider the appropriate impact of fair value accounting on the financial statements, as he writes

“Neither the IASB nor the FASB have produced any justification for reporting business performance on the basis of differences between non-existent transactions. If the concept of profit as value change is unsatisfactory even in an ideal world, it cannot be regarded as a suitable candidate for financial reporting or measuring taxable capacity in the real world. It is no surprise

that accounts can be misleading if they are based on expectations that turn out to be false.”
(Rayman, 2007, p. 224).

The movement towards what Zhang and Andrew (2014) refer to as short-termism and a focus on short term gains potentially led to a lack of focus being placed on accountability disclosure. As Whittington (2008) describes it, this leads to a necessity to provide more detailed integrated reporting surrounding how management has executed its responsibilities when information could have just as easily been included in the accounting. The result is an increase in length of integrated reports which detracts from their usefulness (Atkins & Maroun, 2015).

2.2 Multiplicity and pluralism: the impact of the tensions on financial statements

2.2.1 Multiplicity and pluralism in the context of financial reporting

Broadly, the literature identifies various ways in which financial reporting develops and these are briefly mentioned here. One of the ways accounting standards develop is through political actions as different actors participate in establishing financial reporting tools which suit the ideology of a given user (see Bengsston (2011), Puro (1984), Watts and Zimmerman (1978) and Young (2006)). Bengsston (2011, p. 571) describes how, following the crisis, “the EU [had] taken steps to reinstate some power over the IASB’s standard setting process (Chiapello & Medjad, 2009)” in order “to limit the types of assets subject to fair value accounting” while

“Rumours flourished that the European Commission would carve out certain sections of the valuation rules in IAS 39 or even form its own rule maker, abandoning IFRS altogether.”
(Bengsston, 2011, p. 571).

Another manner of exemplifying the plurality of corporate financial reporting identified in the literature is through a process of discipline and punishment in the Foucauldian manner because

“...we live in a disciplinary society where social order and what appears to be ‘trust’ are the product of disciplinary power and control.” (van Zijl & Maroun, 2017, p. 46).

In this regard, accounting develops to establish power over a particular user group (normally management and employees of an entity) in order to feed into and develop “the calculated management of life” (Mennicken & Miller, 2012, p. 6). This, in turn, drives conformance of the targeted group, and as a result financial reporting serves to improve the bureaucratic environment of an entity, improving governance and control by enhancing surveillance and disciplinary processes (see Cowton and Dopson (2002) and Hopper and Macintosh (2005)).

A final manner, as identified by Georgiou and Jack (2011), is the need for accounting to maintain legitimacy as a means of communicating diverse economic phenomena. They argue that this is one of the reasons why a tension between accountability and neoliberalism exists (see section 2.1.2). The actors involved in the setting of standards interact in such a way as to normalise the standards so that the stakeholders accept them and see them as possessing value due to their alignment with the

societal practices prevalent at the time (Georgiou & Jack, 2011; Scott, 2013). Georgiou and Jack (2011) and Zhang and Andrew (2014) argue that the movement towards fair value accounting is an example of standard setting seeking to maintain legitimacy in a world which has adopted a neoliberal economic lens.

The two paradigms explored above will now be considered in relation to financial reporting in order to better evaluate their impact on reporting standards.

2.2.2 Application of accountability and neoliberalism frameworks to existing financial reporting principles

Literature on the technical accounting details by which the tension between the accountability and neoliberalism paradigms can be elucidated is scarce, with most researchers focusing on the high level application of these frameworks to financial reporting. This tension is examined through the use of the International Financial Reporting Standards (IFRS), due to their adoption over a broader geographical area, and so they are applicable to a wider range of jurisdictions (Bengsston, 2011; Carmona & Trombetta, 2008; Chua & Taylor, 2008; IASPlus, 2017).

With consideration of the above literature (see section 2.1), it appears the IASB is attempting to move towards fair value accounting as opposed to what Whittington (2008) terms the 'Alternative View'. The 'Alternative View' is one which suggests that markets are not efficient nor are they reliable and so measurement should only focus on measurable, entity-specific criteria, as opposed to general market values.

The movement towards a fair value approach can be seen with reference to the Exposure Draft for the Conceptual Framework released in 2015 by the IASB. This document alters the currently accepted asset definition to it being a 'present economic resource' and removes the criteria that it should have arisen due to a past event (IASB, 2015, paragraph 4.5). Likewise with the definition of a liability, the 'past event' portion has been removed (paragraph 4.24), opening the conceptual framework and accounting standards to a higher degree of fair value accounting (Whittington, 2008).

This suggests a rejection of the accountability paradigm of accounting for economic phenomena and Whittington (2008) suggests that the IASB seems to be becoming too theoretical in its approach. In his opinion, it is necessary to consider a utility approach which would take consideration of the real world as opposed to the theoretical backdrop of accountability and neoliberalism (Ibid). This is not to say that current standards lack utility or are otherwise inappropriate (Horton, Serafeim, & Serafeim, 2013). However, as Ravenscroft and Williams (2009) and Whittington (2008) have pointed out, the tension within the standards remain and are sometimes illogical in the sense that they attempt to satisfy both ideological frameworks to arrive at the most "socially acceptable" outcome (McLeay et al., 2000).

The below discussion briefly considers the nature of inventory and its position within the nebulous realm of accountability and neoliberalism. This discussion will be used as the basis upon which to further identify potential ways to align the accountability and neoliberal paradigms.

Inventory

Inventory has ostensibly been an historical cost accounting standard, with the majority of its focus on past events and measurable, entity-specific data (IASB, 2003a). The standard scopes out any reference to fair value measures – even commodities are not specifically measured at fair value unless they are held by a broker. Yet when this occurs those commodity inventories are specifically scoped out of the standard (IASB, 2003a, p.3(b)). In addition, biological assets, such as crops or livestock, are also scoped out of the standard into IAS 41 (IASB, 2003a, p.2(c)).

Briefly, the standard requires that all inventories are held at the lower of cost or net realisable value (IASB, 2003a, p.9). The standard is also explicit that only entity specific information is used when determining the value of inventories on hand (IASB, 2003a, p.7). The standard itself is relatively old – having last been issued in its revised form in 2003. The cost based, entity-specific nature of IAS 2 articulates what Ravenscroft and Williams (2009) suggests is the objective nature of accountability. To Ravenscroft and Williams (2009), entity-specific information belies an objective understanding that cost is less prone to manipulation than market-place fair values. Zhang and Andrew (2014) also make the point that an appropriate value to measure economic phenomena must be as objective as possible, and less prone to management's manipulation, on the grounds that all managers will be incentivised to manipulate financial information if presented with such an opportunity.

Yet this by itself does not obviate the fact that there are different inventory models – based on cost – that can be used by management to manipulate financial information (Bar-Yosef & Sen, 1992). There are a number of papers – based on United States GAAP rules which allows for the use of last-in-first-out (LIFO) inventory valuation methodology – which articulate the tax benefits a firm can derive from the use of a particular inventory accounting method, despite these reflecting only entity-specific information (See Dopuch & Pincus, 1988; Jennings, Simko, & Thompson, 1996).

IAS 2 does not permit the use of the LIFO accounting methodology because of the manipulation experienced in the United States (IASB, 2003a, BC9-BC21). Yet IFRS is very explicit in the formulas for calculating the costs of inventory, describing the situations when it is appropriate or inappropriate to recognise cost on a specific identification basis, among other concerns (IASB, 2003a, p.24).

IAS 2 further entrenches its accountability focus with the manner in which it matches incomes and expenses relating to revenue. This is through the basic tenet of recognising the inventory expense only when the inventory is sold, thereby creating gross margin (IASB, 2003a, p.34). Gross margin reflects the ability of management to generate returns on its operations and is one of the most sought-after metrics in evaluating an entity's performance, and through this, the efficacy of management (Martani, Khairurizka, & Khairurizka, 2009). This is because the ratio reflects only entity-specific information as the sales price is easily determinable for common inventory items (i.e. it is a 'realised' fair value, and its generation into cash does not reflect the financial manipulation that Zhang and Andrew (2014) are concerned about). IAS 2 then specifies that inventory be reflected at an entity-specific cost.

This means that the concern put forward by proponents of an accountability framework is that conversion of the standards (and inventory in particular) may result in the pollution of the inventory value. This will not allow users to hold management sufficiently accountable (Ravenscroft & Williams, 2009).

Such accounting as articulated in IAS 2 also allows for a smoother determination of financial performance. In theory, this eliminates the possibility of gross earnings manipulation by ensuring the expense is matched with the income. As Zhang and Andrew (2014) stipulate, the removal of market volatility also provides a more coherent representation of an entity's performance, which in turn results in a more easily determinable, less volatile, share price. The principle of matching expenses with associated incomes is a very important principle for accountability-focused standards. Other examples include the manner in which depreciation is evenly accounted for over the useful life of an asset (see IAS 16 or IAS 38).

IAS 2 further illustrates its inherent bias towards accountability by way of the embedded principle of prudence. This is reflected through value adjustments being made to inventory when the net realisable value of the inventory falls below its cost. While net realisable value is specifically determined to be an entity-specific value, on some occasions this could be the same as fair value. In effect the standard caps the asset value of inventory at its cost (an entirely endogenous value), while permitting elements of exogeneity to manifest themselves when re-valuing inventory downwards. The accounting behaviour expressed above indicates a predisposition towards prudent financial reporting, with the accounting being "...cautious, cautious almost to the point of pessimism" (Laughlin & Gray, 1988, p. 140).

This prudential characteristic also puts the standard at odds with the new conceptual framework (Macve, 2014; Maltby, 2000). It also reflects the age of the standard and that concepts of extreme prudence have been eliminated from the newer standards, reflecting Zhang and Andrew (2014) and Ravenscroft and Williams (2009) concerns that the standards have largely become the preserve of a neoliberal cabal (Ravenscroft & Williams, 2009; Zhang & Andrew, 2014).

What an inventory accounting model that would reflect elements of both neoliberalism and accountability would look like has not been discussed by the literature, and it is difficult to obtain a clear view on the possibilities of such a model from the available literature. On the one hand, it appears researchers such as Ravenscroft and Zhang would rather IAS 2 remained in its present form. On the other hand, the movement of the standards towards market-based fair values suggests that at some point a detailed consideration of the possibility of measuring inventory at its fair market value may be necessary. However, in practice it is difficult to see how the elimination of the gross profit margin (that such a change would possibly entail) would be accepted by users of financial statements.

Summary

In effect the broad placement of IAS 2 within the accountability framework reflects that despite the movement towards fair values, accountability still maintains a position within financial reporting. The tension that is discussed above therefore does manifest itself in the standards, and through that, the financial reports of entities.

This supports the need for a mechanism which balances both the accountability and neoliberal reporting agenda. The model should be logical and not subject to pragmatic trade-offs which result in a proliferation of standards which require application of rules rather than principles which guide the accounting of economic phenomena (Whittington, 2008). Synthesising the two paradigms, providing useful information to both accountability- and neoliberal-minded users, would allow accounting to go from becoming what it is not, to becoming what it should be (Hopwood, 1987). A dual-reporting framework should be developed to synthesise such disparate financial reporting as articulated above.

The following discussion will articulate the grounded-theory methodology that was applied in order to conduct a number of interviews with experts. This research forms the basis of the proposed model that is described in Chapter 5. This model is designed to resolve some of the concerns raised in the above discussion, and in particular how to synthesise these two accounting paradigms.

CHAPTER 3 – METHODOLOGY

3.1 Justification for pursuing a qualitative method

The research consisted of an inductive thematic exercise inspired by grounded theory (Leedy & Ormrod, 2010). A grounded theory involves the development of a theory based on data collected, as opposed to developing or drawing on a theory from the available literature (Leedy & Ormrod, 2010). An interpretive research method was adopted to explore the trade-offs between accountability and neoliberalism and to develop an alternative reporting framework for IFRS using inventory as an illustrative tool² (Creswell, 2012).

The underdeveloped nature of critiques and analyses of practical accounting problems in the literature further supported the need for a qualitative study due to its ability to extract more detailed and nuanced responses from the participants (Broadbent & Unerman, 2011; Maroun & Atkins, 2014).

3.2 Detailed interviews

The purpose of the research necessitated a qualitative approach and semi-structured, detailed interviews were selected as the most appropriate data collection method. Interviews were selected due to their ability to extract rich detail, and, so, are the most appropriate form of gathering data for an exploratory study (Rowley, 2012).

A smaller sample size of participants was selected, which may reduce the external validity of the study (Leedy & Ormrod, 2010; Ryan et al., 2002). However, this is appropriate in the context of the normative, exploratory nature of the study due to the fact that it sought to develop a new model, as opposed to testing the validity of an existing one (Leedy & Ormrod, 2010). Through the selection of a smaller number of participants it was possible to explore issues in greater depth than otherwise might have been possible, increasing the quality of the responses obtained (Rowley, 2012).

3.3 Selection of interview participants

Participants were purposively selected. They come from different firms and industries to reduce the risk of bias towards the viewpoint of a specific firm or industry (Rowley, 2012). Selection was based on technical accounting experience because of the technical nature of this research. On the one hand, participants' high degree of technical competence increases the quality of the research as it reduces the risk of uninformed responses (Creswell, 2013). On the other hand, the selective nature of choosing the participants increases the risk of bias in the study due to the unavailability of alternative opinions from non-technical users (Creswell, 2012; Maroun, 2017). However, it would have been inappropriate to involve users who were incapable of discussing technical accounting details at this stage due to the exploratory nature of the study (Creswell, 2012).

² Inventory is used due to the simplicity of its accounting and its wider application among entities.

The participants fall into three categories, namely, auditors, preparers and academics. The majority of respondents were located in South Africa.

Auditors include audit partners, associate directors and audit managers. They are included due to their high degree of technical competence and familiarity with practical accounting issues experienced by clients. These are drawn from the assurance firms, including the Big Four³.

Preparers include financial directors, chief financial officers and board members with an accounting background. They are selected due to their understanding of financial information which is reported to users.

Academics include professors and senior lecturers, as well as members of financial reporting standard setters and monitoring groups. Their theoretical expertise drives their selection. The following table indicates the respondents and their respective coding.

Respondent	Coding	Categorisation
R1	P3	A preparer due to his experience in preparing financial statements for a JSE-listed entity.
R2	L1	An academic due to 15 years of experience as a financial reporting expert.
R3	L2	An academic due to over 40 years of experience as a financial reporting expert, while also conducting research.
R4	L3	An academic due to extensive experience lecturing at university and expertise in financial reporting.
R5	A1	An auditor due to experience in a technical division at a Big Four entity.
R6	A2	An auditor due to experience in a technical division at a Big Four entity.
R7	P1	A preparer due to nearly 10 years as a group financial manager for a large manufacturing entity.
R8	A4	Categorised as an auditor due to being a partner at a Big Four entity.
R9	L4	An academic due to wide experience in academia, and serving as a director of the IASB.
R10	P2	A preparer due to serving as a financial controller and group accountant of JSE-listed entities.

³ The Big Four were selected due to their experience in assuring a diversified client base, and so the participants are likely to have encountered a wide variety of complex accounting situations. Further, the majority of JSE-listed companies are audited by the Big Four which indicates that these firms will have greater knowledge of the variety of users impacted by changes to accounting standards, and are better able to appreciate the importance financial information has for the user base.

R11	A3	Categorised as an auditor due to being a partner at a Big Four entity.
R12	A5	An auditor due to serving as an associate director for a big four entity.
R13	A6	Categorised as an auditor due to experience in a technical financial reporting division at a big four entity.

3.4 Data Collection

Participants were contacted by phone or e-mail and invited to participate in the interviews. The interviews were conducted face to face where possible; however, due to logistical constraints some interviews were conducted by Skype. The researcher began the interview by explaining that the participant's responses would remain anonymous. The researcher asked the participant whether the interview could be recorded. Recorded interviews allow the researcher to focus on what is being said, as well as on non-verbal cues given by the respondent, improving the quality of information gathered from the interview (Maroun, 2017).

The participants were presented with open-ended discussion themes to gauge their stance on the current accounting for inventory. The questions were non-leading and designed to be broad in order to increase the likelihood of a variety of themes being discussed (adapted from Louw (2015) and O'Dwyer, Owen, and Unerman (2011)). The following table lists the questions posed to the respondents and these questions are grounded in prior literature (refer to Chapter 2).

Table 3: Discussion questions

#	Question
1.	Do you believe that the current accounting for inventory provides relevant and useful information to users of financial statements?
2.	Is there anything you would change about the current accounting to provide more appropriate information to users?
3.	Do you believe that there is a difference in the information provided between management accounts and financial statements?
4.	Is it important to disclose more information from the management accounts to users?
5.	What would your views be on an inventory model incorporating fair values?

Thirteen interviews were conducted in June and July 2017. Each interview lasted between 45 minutes and 1.5 hours and all were semi-structured. Semi-structured interviews allow for a degree of comparability between interviews but do not restrict participants and the researcher exploring additional avenues which might otherwise not be considered but are relevant (Rowley, 2012).

3.5 Data Analysis

Data analysis is an iterative exercise with the researcher reading and examining each of the transcripts several times in order to reflect on the points raised and to cross-reference the responses (Leedy & Ormrod, 2010).

After each reading of the transcripts, the researcher noted down the points raised by the participant, and grouped these as open codes (Cohen, Manion, & Morrison, 2013). Examples of these codes include accounting for inventory at fair value, accounting for inventory at cost, or that the statement of comprehensive income is the most important financial statement. The researcher did this for each respondent. It was expected that after a number of the transcripts had been read and coded, a degree of saturation would be obtained (adapted from Holland & Doran, 1998; Maroun, 2017).

After ten interviews, the researcher noted that saturation had been reached and this was confirmed by the subsequent three interviews. The saturation of open codes does not necessarily indicate that consensus among the respondents has been achieved; the nature of qualitative research, while iterative, must display some form of pragmatism and it is probable that not all conceivable avenues were explored (O'Dwyer et al., 2011; Van Zijl, 2014).

The researcher re-coded some open codes established in prior interviews due to issues raised in subsequent interviews. In the event of contradictions emerging, follow-up questions were asked of certain respondents to clarify these issues (Holland, 2005).

In keeping with a grounded theory method, axial codes were developed following initial identification of open codes and were modified as need arose. Examples of these axial codes include the information value of other comprehensive income and the purpose of financial statements. All open codes were grouped under these axial codes following completion of all interviews. Finally, selective coding was performed to synthesise the modified axial codes into a coherent framework (Leedy & Ormrod, 2010). Please refer to tables 4, 5 and 6 for a comprehensive list of the axial codes that were generated from the interviews.

The axial codes were used to develop an understanding of the issues which a dual-reporting framework would have to address in order to synthesise the accountability and neoliberal paradigms. Following this, the axial codes were evaluated simultaneously with the open codes to extract details about an alternative model to account for inventory. Open codes were considered in order to extract the detail needed for the model to address the concerns raised by the respondents.

3.6 Validity and reliability

Section 1.4 identified the limitations inherent in qualitative research. The following are safeguards which were instituted by the researcher in order to increase the validity of the respondents' answers, as well as to reduce the effect of researcher bias on the results.

- In order to ensure participants provided full responses and refrained from otherwise providing a complete account, interviewer anonymity was guaranteed. To highlight possible areas of confusion in the interview and modify questions to prevent their misinterpretation, a pilot interview was performed on 29 May 2017 (Leedy & Ormrod, 2010). Ethics clearance was obtained prior to interviews commencing.
- Respondents were not provided with detailed questions prior to the interview in order to prevent rehearsed responses: they were provided an agenda (Maroun, 2017).
- In a qualitative study the researcher becomes an instrument of that study by way of collecting and interpreting the data (Creswell, 2012; Leedy & Ormrod, 2010). In order to prevent mistranslations of responses, participants were offered a copy of the transcript to review and make changes as required. To prevent incorrect coding of themes identified in interviews, the researcher's supervisors reviewed transcripts and coding as part of an inter-researcher review exercise (Leedy & Ormrod, 2010; O'Dwyer et al., 2011).

CHAPTER 4 – INVESTIGATION INTO ACCOUNTABILITY AND NEOLIBERALISM

Almost all participants (excluding L3 and L4) believed that IAS 2 in its current form does not provide sufficient useful information. This, however, is not to say that all other participants rejected a cost-based model⁴. Academics were more prone to outlying views, while auditors and preparers⁵ were less concerned about the theoretical correctness of cost versus fair value and more concerned with the practical implications such models would have⁶. Overall, this suggests accounting for inventory is as much a function of the purpose of financial statements (Murphy et al., 2013) and the conceptual framework (Whittington, 2008) as the economic phenomenon of inventory itself.

In this context, the detailed interviews revealed three methods for accounting for inventory: (1) a cost approach, (2) a fair value approach and (3) a hybrid approach.

A cost approach bases the measurement of inventory on a cost-accumulation method currently favoured by IAS 2. A fair value approach re-measures inventory at the end of each reporting period in the statement of financial position at fair value per IFRS 13, with changes in the fair value recognised in the statement of profit or loss. A hybrid approach re-measures inventory at the end of each reporting period to fair value (or some similarly-natured value), however the presentation of the movement is split in order to retain the gross profit margin while simultaneously providing valuable information to users who favour a fair value approach. As a result, the presentation reflects both the current gross profit margin present in financial statements, but this gross profit margin is reconciled to the fair value movements of the inventory both sold and retained on hand at year-end.

Each of these models is discussed in detail below. The remainder of this chapter is organised as follows: first, it considers the responses in the context of accountability and neoliberalism by considering the purpose of financial statements as a base from which reporting standards are developed. Second, it considers the respondents' views on measuring inventory, specifically on fair value and cost.

⁴ Some participants preferred a cost-based model to a fair value-based model, however, argued that changes should be made in the present standard to better communicate complex information.

⁵ Please see Section 3.3 for a discussion of the three participant groups. In this chapter, auditors are coded with 'A' as in 'A1', preparers as 'P' and academics as 'L'.

⁶ This is commensurate with the anticipated views of each of these three groups. See Section 3.3.

4.1 A thematic narrative towards synthesising accountability and neoliberalism

The purpose of the section is to explore the views of respondents in relation to the purpose of financial statements and the appropriate measurement of inventory.

The main issues highlighted are the following:

- Measurement of inventory is inextricably linked to a respondent's view on the purpose of financial statements,
- There is a dual-purpose need for financial statements to both hold management accountable as well as provide relevant information for valuation purposes,
- OCI currently lacks a conceptual basis,
- That it would be possible to develop a conceptual basis for OCI as a repository for unrealised gains and losses,
- There are inherent limitations to using either a fair value or cost basis for measurement and
- There are other ways in which to measure inventory, such as current value approaches.

4.1.1 The purpose of financial statements according to different users⁷

Participants identified (1) what the purpose of financial statements is in relation to accountability and neoliberalism, (2) how this impacts other comprehensive income, (3) how this impacts the disclosure of realised and unrealised amounts, (4) the impact of user groups on financial reporting and (5) what the most important financial statements are.

1. Accountability versus neoliberalism

Participants identified that financial statements are presented to hold management accountable and to provide relevant and useful information to users of financial statements, often for purposes of valuing the entity. Some respondents (A1; A3; P1)⁸ indicated that preparation of financial statements was performed as part of a compliance exercise in order to meet relevant laws and expectations established by financial practice.

The cross-section of respondents who identified that financial statements are used both to hold management accountable and to provide useful information indicates a dual-purpose need for financial statements. As A3 described it

"I think holding management accountable, to my mind that is actually across the board. So I think everybody looks to these financial statements **to hold management accountable**. I don't think there's a question around that. I think there are users who then additionally use **it to understand the actual value of the company**. I think on the accountability side I don't think there's anybody who doesn't use them to hold management accountable" (A3, emphasis added).

⁷Please refer to the tables at the end of each section for a summary of the views of the respondents.

⁸ This is commensurate with a Foucauldian-type understanding of disciplinary practice (Maroun & van Zijl, 2016).

The idea that users use the financial statements to hold management accountable supports the views of Whittington (2008) and Murphy et al. (2013). Nevertheless, a number of respondents (A1; A2; A3; A6; P1; L1) identified that accounting standards were moving towards a fair value model. L3 describes this as

“... [Looking] at what’s happening in the conceptual framework where we’re going with financial accounting it’s really moving towards a fair value model. And yet inventory which can be a really substantial part of the statement of financial position is kept at cost or NRV if you’ve incurred a loss” (L3).

This sentiment was echoed by A3, who said the following in response to whether or not there was a fundamental difference between IFRS 9 using fair value and IAS 2’s cost-based approach

“So it’s been a kind of gradual acceptance. So if you thought about IAS 39 then in the initial days there was already a lot of pushback against that. Then people started to become a lot more comfortable with the concept of applying fair value to these instruments. So as we moved along and became more comfortable with IAS 39 we became a lot more comfortable with this concept of applying fair value” (A3).

Contrary to the literature (see Zhang and Andrew (2014); Ravenscroft and Williams (2009)) several interviewees (A3; A4; A5; P1; L3; L4) identified fair value as being useful for holding management accountable, as argued by L2 when asked whether a movement towards a fair value model would undermine the ability of users to hold management accountable

“*Absolutely not*. Because I think by putting the change in value in the period in which the change in value actually occurs, I think you provide valuable information. I think you allow people to use the historical cost basis of information, you largely allow them to record profit at the number they would like it to be rather than the number it actually is” (Emphasis added) (L2).

This suggests that the association of stewardship with historical cost may be flawed, and that it might be possible to hold management accountable under a full fair value model nonetheless (Maroun, Maroun, Garnett, & Garnett, 2014)

“If I give you £1 million to look after for me and I come back to you in a year’s time and you say, ‘You gave me £1 million pounds to look after’ that’s historical cost information. Whereas if you come back to me in a year’s time and say, ‘The £1 million you gave me is now worth £1.5 million’ that’s fair value information. Now going forward, I expect a return from you on £1.5 million, not £1 million and I want to make the decision about taking that asset away from you. If you come back and tell me I gave you a million, you’re not telling me anything I don’t already know. So that’s essentially the problem with historical cost information so I don’t believe it increases accountability. I think it decreases accountability” (L2).

However, this was disputed due to some inherent limitations identified with a fair value model. Two examples are the removal of the gross profit margin and the difficulty of obtaining objective fair

values. A4 argued that there was a great deal of judgement in fair value, and voiced concern that there was insufficient guidance from the IASB on what fair value is

“...there is confusion out there and I think even sanctioned confusion from IFRS on how to derive fair value and an easy example is in the mining world. If I’m going to determine the fair value of mining operations, I am at liberty to discount my future cash flows at WACC⁹ and that is determined net of rehabilitation costs but then the rehabilitation liability gets discounted at a completely different rate and gets put on the balance sheet so I’ve got mixed discount rates sanctioned by IFRS” (A4).

P3 reiterated the subjective nature of fair value, suggesting that increased flexibility in determining the fair value of an item makes it more difficult for the user to understand what judgements were made in arriving at a particular value (see Section 4.1.2). A current value, P3 argued, would be more objectively determined due to having entity-specific information¹⁰. L3 equated fair value with basing the financial statements on “our dreams for the future”, because, “everyone has amazing dreams for the future but do they actually happen?” Put differently, by incorporating fair value for inventory, which L3 and L4 equated to booking future profits in the current period, the financial statements would not appropriately reflect the performance of that entity which would mislead investors¹¹.

On the other hand, L2 disputed the notion that fair value was misleading. Commenting on the difficulty of obtaining fair values, respondents argued that with an active market there was limited subjectivity (A3; A6; P1; P2; L1; L2)

“If you have an active market and an identical asset, then there is little subjectivity in measuring at fair value. If you have a level 3 fair value measurement, then I think there is subjectivity but that’s why we have extensive disclosures about that subjectivity” (L2 – emphasis added).

Hence, L2 argues fair value information is both more useful and less misleading than cost information. L2 further articulated the possibility of cost information being misleading and how it allowed

“Management to record profit at a number they want it to be rather than the number it actually is...By way of illustration, all you need to do under the historical cost model to record profit at the number you would like it to be is just keep a whole lot of longer term assets at historical cost. The fair value of those assets goes up over time let’s assume, you choose when to realise that value, therefore you choose when to put that value in profit or loss” (L2).

L2 further suggested that historical cost information could be more misleading than for fair value information. For instance, the estimates which are prevalent in the depreciation calculation, which then feeds into the cost of inventory in terms of IAS 2, increases the subjectivity and scope to manipulate the cost of inventory, skewing the performance figure. This issue is compounded when assets accounted for on the cost model are at a value of nil, despite *still* being used.

⁹ Weighted average cost of capital.

¹⁰ A fuller discussion of current value versus fair value versus cost is found in Section 4.1.2.

¹¹ L4 suggested that items which could only be sold very shortly should be fair valued. Hence, revaluing all the inventory at year end might be misleading if it was not possible to realise that inventory within a short space of time.

The above section has discussed accountability and neoliberalism in the context of financial statements overall. The respondents indicate that some fair value information is needed in order to value an entity and that it allows for some accountability. However, cost information is also needed: The model has to report both details.

2. Accountability and neoliberalism's impact on other comprehensive income

Overall, respondents were negative about the information value of OCI, with many respondents agreeing that OCI lacks a conceptual basis¹². A3 argued that it was a “parking ground for stuff preparers do not want to see hitting the income statement immediately” and that a possible way forward was to use OCI for abnormal or exceptional items (L4).

Nevertheless, some respondents were positive about the value of OCI in communicating certain types of information. For instance, A4 suggested that

“I guess what it does is that it's a holding place for something that's uncertain and unpredictable and could pollute your understanding of the actual underlying performance of the company” (A4).

A4 referred to examples such as *IFRS 5 - Non-current Assets Held for Sale* and hedge accounting per *IFRS 9 – Financial Instruments* as examples where the underlying performance of the entity is not “polluted” by “uncertain and unpredictable” phenomena, and suggested that an ideal conceptual basis for OCI could be to represent movements in unrealised amounts¹³. A number of respondents (A2; A6; P1; P2) suggested that OCI is presently a mechanism to split non-core and core operations' performance. Put differently, they argued that profit or loss currently reflected the results of core operations while OCI represents non-core results. As illustrated by A6

“I think the clue is in the name of *other* comprehensive income, sort of away from primary profit generating activity, what we know is getting us money. So that's why it's there. I think it's great with IFRS 9 where the equity goes through OCI¹⁴. You invest in equity because you know it will make you money but you're afraid that's not your primary business and those movements you don't want to affect your profit so they should put them in the side somewhere. Sure if you've made a loss or gain we show that. But that's not what we do” (A6).

A3 linked the use of OCI to a historical desire by companies in the United Kingdom not to represent changes in actuarial gains and losses¹⁵ in net profit because they were not operational movements. A2 and A6 supported the notion that it made sense to include actuarial gains and losses in OCI because they did not reflect management performance. A2 described the movements as “...truly a gobbledegook of assumptions that pops out a number (sic).”

¹² This is OCI as envisaged by the current conceptual framework, and ignoring the discussion papers on the topic.

¹³ For instance fair value movements on non-current assets which have been marked as held for sale but have not yet been sold per IFRS 5.

¹⁴ Equity and debt instruments accounted for at fair value through OCI. See IFRS 9.

¹⁵ Per IAS 19 – *Employee Benefits*.

L2 indicated that OCI had useful information; however this was in its value as a disclosure device. Put differently, L2 said that OCI has value by disaggregating information, although there is no fundamental difference between what should go into OCI and what should go into profit or loss. For instance, while OCI might be used to reflect non-core operations, this is merely because users find value in such disaggregated information, and not because non-core operations should not be reflected in earnings per share.

Other respondents argued, however, that OCI did not provide useful information because it “obfuscates the real result” (L4 and A2) and is a place to “shift your stuff-ups (sic)” because “no one looks at OCI” (P1). A2 was concerned that OCI confuses users as it disguises what the real performance measurement figure is and suggested that OCI should be removed. While A2 was the only respondent who recommended that OCI be entirely eliminated¹⁶, the majority view of the respondents was that OCI required a more coherent conceptual basis in order to understand what should and what should not be presented in OCI to help users use it correctly. This is consistent with the literature, which identified the lack of a conceptual basis for OCI and identified the difficulty of developing a conceptual basis for it (Bradbury, 2016).

Hence, a dual-reporting framework which makes use of OCI would have to develop, if not a conceptual basis, then, at least a theory, for amounts which should be reflected through OCI. By doing this, the responses of the interviewees suggest that OCI would become a more valuable tool in the analysis of financial statements.

3. Accountability and neoliberalism's impact on the disclosure of realised and unrealised amounts

For the purposes of this research, unrealised and realised gains and losses are distinct. Realised movements are those which arise from a past event with a third party, while unrealised movements are those where no transaction with a third party has yet occurred (A1; A4; A5; A6; P1; L4).

A6 argued that having stability in performance figures was associated with representing only realised amounts. A6 further indicated a preference for stable earnings to value more easily an entity when estimating the growth rate. Respondents agreed that placing unrealised amounts in profit or loss would increase volatility¹⁷. There were, however, mixed views on whether this was appropriate.

P1 argued profit or loss should contain core operational information and so whether the amount was realised or not was irrelevant. P1 went on to suggest that this would enhance comparability between entities (especially within the same industry).

Several respondents (A3; P1; P2; L1 and L2) argued that the distinction of what goes into profit and loss is not based on whether the amount is realised or unrealised. L1 argued that the principle of

¹⁶ L2 also indicated that they did not mind whether OCI was present or not in the SOCI. L2 acknowledged that OCI could provide use to some users.

¹⁷ This is probably because most respondents equated unrealised movements to fair value and actuarial movements – changes in value which are not represented by an immediate realisation of that value.

recognising income and expenses only when they were realised was outdated because the conceptual framework did not indicate that income and expenses are only realised gains or losses, rather that they are changes in assets and liabilities (IASB, 2010)¹⁸.

L2 supported this by suggesting that each day all assets and liabilities are realised

“To me you realise every asset every day basically because you make a decision to sell or not to sell it every day. I could close out every position I have on every asset and liability every day and replace it with an identical asset or liability and then it would be realised. By not doing that, it's unrealised. What's really the difference between the two things other than transaction costs?”
(L2).

Despite this, other respondents were of the view that net profits which reflect earnings per share should only reflect realised profits, rather than unrealised changes in value of assets and liabilities. A1 suggested, when asked about whether an amount should only be included in profit or loss when realised, that

“...it depends on the circumstances...on a principle level you definitely have to have realised it, it should only be included at that point. Purely because you're almost speculating if you're not. So you're basically saying that that property in Sandton, looking at what the property markets are doing there, are going to result in an income [if the value increases]¹⁹. But then our President decides to reshuffle the cabinet and your fair value moves and then you're putting this through profit and loss and making it seem like it's related to the entity's performance. Meanwhile it's related to the macro-economic factors in general so it's almost a bit of a toss-up with that perspective and that is why once you've realised it it's not macro-economic dependent anymore”
(A1).

This sentiment was echoed by L4 who also highlighted that by reflecting unrealised changes in value in profit and loss no “real profits” would be shown in the current year because “they are always going to be made in the prior year”. L4 further argued that by reflecting unrealised changes in value, it does not appropriately reflect the *activity* of the entity. In other words, if the entity's activity is the buying and selling of goods, marking changes in the value of the goods does not give users an indication of the effectiveness of the entity in the context of its business model.

P1 also highlighted the problems with recognising unrealised gains in the context of inventory

“I just think it interferes with your ability to tell whether the division is making a good profit by buying and selling. I can see at the same time that you're revaluing it every month – you could make all your profit at once and you can make more profit by buying more stock and then your cash would just suck out. So you're making fantastic profit because you're just building up these huge stock reserves so it would actually be nonsensical at the end of the day.”

¹⁸ A discussion on the use of the balance sheet approach for defining gains or losses is beyond the scope of this research.

¹⁹ In other words, because the value of the property increases due to a good property market, an income will be recognised in the SOCI because the fair value has increased.

P1 argued that presenting unrealised movements in the performance figure would “create havoc in the revenue stream” because it becomes unclear what the changes in the value of the entity are; whether they are related to the *activity* of the entity or the changes in its macro environment.

Alternatively, some respondents (A3; A4; P2; L1) considered applying different disclosures for realised and unrealised amounts. So while realised and unrealised amounts could be reflected in the overall performance figure, by separating realised and unrealised amounts through – for instance – other comprehensive income (A4), it becomes possible to gain a better understanding of how the entity is generating value. L1 suggested the income statement should be decomposed into different areas to “give users an idea that this is an estimate²⁰”.

While not explicitly agreeing that different disclosures should be made for designating realised and unrealised movements²¹, A6, P2 and L2 agreed that disaggregating information provides value to users. While different disclosure would still result in a polluted performance figure, the disclosure would, at least, provide users with the ability to calculate a modified performance figure as they see fit²².

4. User groups and their impact on the purpose of financial statements

The literature (see Zhang and Andrew (2014) and Ravenscroft and Williams (2009)) identified some user groups, such as banks and investors, as the driving force behind the movement towards a fair value conceptual framework. They argue that current providers of capital are being disadvantaged in favour of future providers. Hence, respondents were asked who they believed the most important users to be, with an emphasis on whether a distinction exists between current and future providers of capital.

Participants identified current and future investors, current and future providers of credit and regulatory authorities such as taxation collection authorities or industry regulators as the main users of financial statements. A1 suggested that the larger the entity is, the more likely they are to be concerned about regulators

“What they’re also concerned about is regulators. I do see that especially if they’re bigger and subject to regulation they are very concerned by what regulators will say because if they’re found to be contravening any regulation the backlash of that seems to be very high” (A1).

Credit providers were considered to be part of providers of capital (future and current), with a few dissenting responders who suggested that credit providers were not important users (A4; A6; L4). L4 described the extent of banks’ usage of financial statements as

²⁰ The estimate being the unrealised figure which has been recognised.

²¹ With the exception of P2.

²² This is also referenced in IAS 1, which indicates that the purpose of general purpose financial statements is to provide information to users to value an entity and make economic decisions about that entity.

“...they'll look at those accounts and [see] if it's solvent and profitable. But it's at that level. A really broad level of baseline numbers, not the underlying investment proposition which is a whole different ball game” (L4).

However, most respondents did not distinguish between future and current providers of capital (conflicting with Whittington (2008)'s arguments) supporting the notion introduced above that a movement towards fair value does not necessarily equate to a devolution of the information presented to current providers of capital. L4 suggested that investors were the most important user group, and that entities reported to the “investor universe”, meaning both current and prospective investors. This does not mean to say, however, that future providers of capital do not encourage a neo-liberally oriented agenda. Respondents believed that future providers of capital do wish to see more forward-looking information than do current providers, however, as mentioned above, current providers are still intent on understanding the future prospects of the entity.

This supports some of the literature which argues that current providers of capital prefer information with which to hold management accountable, such as gross profit margins, while future investors prefer forward-looking information, which introduces a requirement for fair values.

Regulators, on the other hand, appear not to be concerned about the difference between fair value and cost information.

A1 and L3 were concerned with the elimination of the gross profit line item as a result of moving towards a fair value model²³. P1 and P2 raised similar concerns. A1 argued that gross profit was important because

“...that's going to tell guys what they are generating from their actual operations, not taking into account all the other expenses and other stuff that comes in but the actual core of the business which is to sell this particular thing” (A1).

Tax authorities and other legislative arms (such as government agencies) were largely ignored in the responses provided by the respondents. P1 reported that one of his users were the tax authorities, who he described as being exceptionally interested in the notes provided by the entity

“...The only one who really uses the notes is SARS, and they have lots of questions on all the notes. All of them, they get lots of good ideas from all of them. Financial instruments and other income, even auditor's remuneration they will find” (P1).

However, P1 also described SARS as being in a position to simply capture figures from the financial statements to prepare their own reports, and in this regard did not have much of an ideological interest in whether an item was fair valued or not. P1 further identified Statistics South Africa as being a user, but largely a dormant one.

Users more generally would in some instances prefer not to have fair value information in order to evaluate the performance of the core business. Largely, the responses seem to suggest that a dual-

²³ Under a pure fair value model, revenue would equal the cost of the item being sold and therefore there would be no gross profit margin.

reporting framework which takes cognisance of both fair value and cost information would be beneficial due to conflict between users groups and the type of information they want.

5. The most important financial statements in the context of their purpose

Whittington (2008) and Zhang and Andrew (2014) also suggested that an increased emphasis on future providers of capital has resulted in an increased emphasis being placed on the Statement of Financial Position. Hence, respondents were asked what they believed the most important statement/s is/are. Respondents were of the view that appropriate decisions could only be made with a consideration of a number of different statements, rather than a focus on any one.

The two statements which were considered to be most important when used in conjunction were the statement of comprehensive income²⁴ (SOCI) and statement of financial position (SOFP) (A1; A3; A4; A5; P1; P2; L4). Respondents who believed this were generally averse to the idea that the statement of cash flows provided good information (A4; L4; P1)²⁵. The SOCI was thought to provide information about an entity's profitability which A3, P1 and L4 argued was the most important aspect when assessing an entity's performance. P1 described how no queries were received on cash flow statements but queries were always in relation to the statements of comprehensive income and financial position. L4 indicated that while,

"The finance people say it's the cash flow statement...in reality it's the income statement and it's empirically shown because when prices move in listed entities they don't move because the balance sheet gets better, they don't move because the cash flow statement showed a significant swing on the cash generated from operations. The prices move based on the reported income statement. So whatever people might say, the actions belie that. The actual empirical data belies that" (L4).

A4 supported this opinion by saying,

"So from experience cash flow statements don't mean a hell of a lot. And I say that in terms of their specific line items. They give you a good indication but they're not very precise (sic)" (A4).

However, A3, A5 and A6²⁶ – while not disregarding the need for the income statement – indicated that they used the cash flow statement to "get a feel" (A3) for how the company was performing, and "because cash is what keeps your business running" (A5). Yet A3 and A6 also indicated that in their experience users do not use the cash flow statement "that much" (A3).

²⁴ Respondents were not specifically requested to distinguish between other comprehensive income and net profit at this stage of the interview. Users were asked later what their views of OCI were, and these are explored in Section 4.1.2. 'Statement of Comprehensive Income' and 'Income Statement' are used interchangeably here.

²⁵ A2 suggested that the statement of cash flows was a missed opportunity which could provide the most important information if enough attention was paid to it. However, A2 also described how the preparation of the SOCF was probably not sufficiently robust to warrant reliance.

²⁶ It is interesting to note that these respondents were all auditors who are not users in the sense of making economic decisions but use the financial statements to provide an opinion, an opinion which has to remain cognisant of the needs of users who do make economic decisions.

Summary

Respondents articulated a wide range of views on how accountability and neoliberalism impact financial reporting, and many of the conflicts identified among respondents supports the literature. However, where the literature sees an irreconcilable split between current and future providers of capital, and accountability and neoliberalism, the views of the respondents are that the condition of financial reporting was not so black and white.

Some users who characteristically preferred historical cost information at times needed fair value information and some users who characteristically preferred fair value information at times needed historical cost information. So a dual-reporting framework which uses characteristics of each is needed.

Further, investors were identified as the most important user group but the distinction between current and future investor was not as profound as suggested in the literature. Additionally, it was also found that OCI lacks a conceptual basis and while one respondent disputed that a conceptual basis could be found, others recommended basing OCI on unrealised or non-operational amounts. Table 4 summarises the respondents' views.

Table 4 – Respondents' views regarding the purpose of financial statements in the context of accountability and neoliberalism²⁷²⁸

Key issue	Respondents for	Opposing
Financial statements are used to hold management accountable.	A1; A2; A3; A4; A5; A6; P2; P3; L1; L3; L4	P1
Financial statements are used to provide relevant information to aid in valuing an entity.	A1; A3; A4; A5; A6; P1; P2; P3; L1; L2; L4	N/A
Primary users are the only future providers of capital.	A1; A2; L3	A3; A4; A5; A6; P2; L2; L4
Primary users are both future and current providers of capital.	A3; A4; A5; A6; P2; L2; L4	A1; A2; L3
The statement of comprehensive income is the most important statement.	A1; A3; A4; A5; P1; P2; L4	L2; P3; L1; A2; A6
The statement of financial position is most	A3; A4; L3	L3

²⁷ This table serves as a basic illustration of the positions of the respondents and a summary of their views. It does not serve as a detailed statistical analysis of the results.

²⁸ Please note that not all respondents may have discussed a particular matter, and hence not all respondents' codes appear in each topic line.

important.		
OCI lacks a conceptual basis.	A2; A3; A5; P2; L1; L2; L4	L2 ²⁹
OCI obfuscates the true performance figure.	A2; P1; P2	L2; A4; A5
OCI presently illustrates the difference between core and non-core operations.	A3; A6; P1; P2	A2; A4; L2; L4;
OCI could be used as a split between realised and unrealised movements.	A4; P1; P2	N/A
Only realised movements should be presented in profit or loss.	A1; A4; A5; A6; L4	L1; L2
Both realised and unrealised movements should be presented in profit or loss.	A3; P1; P2; L1; L2	L4

4.1.2 Evaluation of the accounting for inventory

The outcome of the views of the respondents over inventory was very closely aligned to what those respondents' view of the purpose of financial statements was. Hence, a respondent who believed financial statements should not illustrate unrealised gains as profits were less likely to argue that inventory should be accounted for at fair value. However, there were still diverse views on whether inventory should be accounted for at fair value. As suggested earlier, most respondents would not consider a pure fair value approach, largely due to inherent limitations in deriving a fair value (its subjectivity as a measure).

The following table summarises the views of respondents in relation to the purpose of financial statements, the user type, the adopted paradigm and the proposed measurement of inventory.

²⁹ L2 argued that a conceptual basis could not be developed for OCI and consequently it made no sense to argue whether or not a conceptual basis should be developed.

Table 5 – Cross section of results

Purpose of financial statements	User category	Adopted paradigm	Proposed measurement
To hold management accountable	Existing and future providers of capital; employers; regulators	Accountability paradigm	Predominantly cost, with some items re-measured, such as PP&E and investment property
To value the entity	Future providers of capital, with some existing providers who wish to evaluate the status of their holding (buy making a buy or hold decision) or to evaluate the status of a loan	Neoliberal paradigm	Full fair value with sufficient disclosures. In some cases stable earnings to apply a growth rate, suggesting accountability paradigm
To provide information to regulators and tax officials	Regulators and tax officials	Accountability paradigm	Officials are more interested in historical events, and prefer cost information.

Measuring inventory

L1 and L2, who suggested that the conceptual framework was moving towards a general fair value approach (Whittington, 2008), were the only two who believed inventory should be accounted for at fair value. This supports their belief that fair value provides better information, both for valuing the entity and assessing management's performance. On the other hand, A4, A5, and L4 believed that only cost should be used when accounting for inventory. A4 suggested that more disclosure could be provided in the notes to illustrate the likely realisation time frame of that inventory by "hooking it to a timeline". The remaining respondents preferred to base the measurement on cost, but they were not opposed to using other measurement techniques which were not based on fair value, such as replacement cost or current value³⁰.

Respondents were quick to point out the different natures of inventory, particularly long-held inventory (such as an aircraft made to order) and short-held inventory (such as retail products). Respondents were of the view that short-held inventory carried at cost provided appropriate information, whereas inventory which was longer term would benefit from a different measurement basis. P3 used the example of comparing a long-term item of PPE with short-term inventory when considering the usefulness of a revaluation exercise

"I think in the case of PPE because it's a long-held asset then assessing the value might be more beneficial and instructive. It's not just the revaluation; it's also the impairment that I'm thinking of. If it's inventory that's routinely acquired and resold, then the issue you're dealing with is very small where it [the inventory] won't stick on your balance sheet for a long period of time" (P3).

³⁰ Current value was defined by P3 as the expected selling price less the future costs expected to get the inventory to the location and condition to be sold.

Value, then, becomes a measure of the activity associated with that product because, as the entity moves towards completing the item, the value changes

“Retail inventory which is bought in its finished state ready to be on-sold, any sort of dealership arrangement, then accounting for it under IAS 2 at cost seems fairly reasonable because there will be no change that’s taken place. If it’s manufactured inventory then I think there are different categories of that. Whether it’s manufactured to specific order or if it’s manufactured in bulk on a routine basis. The key thing in there is then starting to consider when you would recognise the added value to the product” (P3).

As P3 went on to say (when discussing the accounting treatment for pre-harvest development in terms of IAS 41)

“This focuses on the fact that the value’s changed. So I think there’s a place in limited circumstances for accounting using cost but in most cases where something is done to convert or change the item, the cost is at best archaic and at worst completely irrelevant” (P3).

While P3 disputed using a fair value approach, suggesting that a current value be used instead, this supported the idea that it is useful to re-measure inventory³¹.L3, on the other hand, challenged whether re-measuring inventory would be appropriate at all

“I do think there’s a lot of merit at measuring inventory at its cost because I think you need to know how much it cost you in order to make sure you break even. I don’t know that measuring inventory at fair value would be the correct way. It gives the users information about the value of the inventory but are we trying to show the selling price or what it cost us so we can show the users how efficient we were? And I think it’s more useful to show the users we are actually being efficient” (L3).

P3 argued that the value of inventory should reflect the activity performed, essentially the value which has been added to the inventory. So the total value which is reflected is a current value which is a feature of both its physical and realisable value

“If it’s a commodity I don’t see the relevance of cost coming into it. Whether it’s recent cost or older historic cost. The difficulty is knowing whether the price is the right price to use. If it’s something like maize the price of maize is the price at a particular point, whatever the market point is and transportation is additional to that. There isn’t, in the same way, a market price for coal because of the variable quality of not just thermal content of the coal, it’s [also] how much crap there is in the coal. But transportation is a big cost for that. Commodities like timber are highly dependent on transportation costs, so all of these factors I think are quite important. So the fact that you have a commodity doesn’t mean that the price of that commodity is the quoted market price. There’s an expectation that has to be built in of the effort that it will take to achieve that market price. There’s a bit of subjectivity creeping in there but I still think that it’s more relevant information” (P3).

³¹ See discussion below on the argument concerning which measurement technique is the most appropriate and reliable.

P3 argues that this hybrid of entity- and market-specific information increases both the relevance and the reliability of information presented to users. Per the above example, P3 suggests that fair value is not necessarily useful to users because of its failure to incorporate all costs associated with realising the inventory. P3 explained that the uncertainty of realising the inventory had to be built into its expected value

“If it’s [the inventory], still something you’ve got to do to in the future, then that’s part of the risk in the value that you’ve got to expend in order to get that future price” (P3).

P3 further suggested that when determining the selling price component of the inventory value, it was not necessary to rely on market prices

“To be categorically clear, it doesn’t make sense to me to say that “I have, as it were, inventory in the ground or inventory on hand now, that I have to price at today’s spot price if I’ve already got some pre-sold or if I’ve got an expectation of selling it into a market at a different price in the future” (P3).

Several respondents (A1; A3; P1; P2; L3) considered replacement value as an alternative to fair value for two reasons. Firstly, because it would be easier to calculate than fair value and less subjective in nature and, secondly, because it would still retain the gross profit margin. L3 argued that by re-measuring to replacement value it would make gross profit a less misleading figure in the event that the value of the inventory had increased since it had been purchased/manufactured. A4 and L4 argued against the use of replacement cost because, in L4’s words, it would “obfuscate how much margin I’m going to earn out of that, the true margin,” while L4 indicated that

“...it’s very well when you say “I had a single item – that’s the cost of replacement” that’s easy to do but when I’ve got my stockholding en-masse and I have to replace it en-masse, is that a realistic calculation? What does it mean to you? Because I’m not going to replace it” (L4).

Based on these discussions, some respondents suggested it would be appropriate to establish a hierarchy of values for inventory measurement. L2 suggested that obtaining a value for an item which was not in an active market (in other words, a level 3 input per IFRS 13), was subjective³², and P1 supported this

“When there’s an active market for it, then fair value. But now let’s say there’s no active market. Yeah that would actually be hellishly difficult! You would have to look at the input costs and you’d have to look at the current input costs compared to those which created the stock so if we were to make the product now, how much would it cost to make?” (P1).

A3 also supported the notion of a hierarchy, suggesting that so far as fair value is reliably measurable, it should be used and thereafter a second, more objective measurement approach should be adopted.

³² L2 did not support the notion of a hierarchy, arguing that fair value disclosures were sufficient to explain the subjectivity in the fair value measurement.

This is not to say that rules would be imposed for how to measure certain types inventory by, for instance, requiring that all retail items are measured at cost regardless of whether their fair value could be obtained. As articulated by P3

“If you have different categories then you encourage arbitrage between the different categories. If you have a single principle which overrides and then you make exceptions that, in the case of retail, you will use the cost you paid for it except if it’s damaged or unsalable in some way, [then] you’ve got to consider its value may be” (P3).

The preceding discussion argues for a measurement approach to inventory which takes cognisance of its economic status, rather than the ease with which measurement can be achieved. Hence, depending on the type of inventory, historical cost becomes misleading, and other measurements, particularly current values, should be used. This marks a shift away from historical cost information, supporting the need for alternative measurement of inventory in the financial statements.

2. The reliability of cost and fair value measurements

While some respondents (A1; A2; A3; A6; P1; P2) identified that fair value measurement of inventory could provide some information value, these respondents all disputed the reliability of fair value measurements. Auditors were particularly concerned with testing and expressing an opinion on increased fair value disclosures, with A1 arguing that the auditing would “become very detailed and judgemental”. A3 suggested that certain industries would struggle with developing a fair value for their inventory, with A3 describing fair value measurements as a “black box”³³.

P1 discussed how a division in their business had been revaluing inventory for several years, and that this was “initially started by someone wanting to hide problems throughout the year”, suggesting revaluation of stock can be used to manipulate profits better than cost. P1 went on to say that the biggest complaint from the division was that the revaluation exercise “took a lot of time and was a year-end nightmare”; however, as they established systems, the process became easier.

Despite many respondents highlighting the subjective nature of fair value generally, there was also a belief that cost information could be misleading. A5 and L4 both suggested that financial instruments required fair value information because, in the words of A5, “those pieces of paper could potentially cost us a significant amount of money in the future”: nevertheless both argued that in the case of inventory, cost was not misleading. P3 suggested that when considering the costing of inventory inappropriate information was often provided due to a cost smoothing approach

“...I’d say when you’re looking at inventory valuation ‘you want to look at CU350 [cost] a tonne on average, does that give you any useful information?’ I don’t think so. I think the useful information is that you’ve got some [low-grade] coal at which CU300 less the cost of getting it to the [local] customer is the value to you and the [high-grade] coal is the CU750 less the cost of exporting it;

³³ A3 highlighted the fact that mobile operators were justified to complain to the IASB regarding the implementation of IFRS 15 because “it [developing a fair value] is actually very difficult”. This was in reference to the fair value of airtime and data, intangible inventory items which were difficult to establish appropriate fair values for.

the value of the coal is different. The quality of the coal is different. But a cost smoothing approach would simply just strike a line across the whole lot" (P3).

P1, despite highlighting the difficulties of obtaining fair value and its relative unreliability, indicated that cost becomes misleading when the asset in question is a long-term asset. P1 illustrated this by using the example of companies not revaluing PPE and making it appear as though the entity was much more efficient in its asset utilisation than it is (for instance, consider the effect on return on assets ratios).

3. Cost-benefit trade-offs and the provision of sensitive information to outsiders

Another consideration raised was the cost-benefit trade-off of using fair value for inventory. Many respondents (A1; A2; A3; A4; P1; P2; L3; L4) believed that cost was a sufficiently appropriate measure for most inventory items because it would be realised relatively quickly. A4 and L4 suggested that by providing disclosures about the realisation time frame and expected realisation value that similarly useful information would be provided without the difficulty of establishing systems to calculate fair value. A1 suggested the additional benefits would not be worth the cost because unlisted companies would be unlikely to have the resources to be able to calculate fair value, whereas the fair value might end up approximating cost in any case and so "you're almost creating unnecessary additional disclosure to get to the same point."

L3 and A3 described the change to banking systems following the introduction of IFRS 9 where banks were required to put in place more complicated systems to calculate the expected credit loss allowance (L3). While A3 suggests that, because of the new systems, banks are now in a better position to assess the fair value of financial instruments; L3 argues that the process is costly despite the practical expedients written into the standard. However, P1 did indicate that the process of arriving at fair value may become easier as information technology improves. This suggests that there is likely to be a point of effectiveness where information technology, cost effectiveness, use to the entity and enhanced information being provided to users would converge.

A final issue raised by A2 and L3 was whether or not using a different measurement technique (other than cost) would lead to the entity providing too much sensitive information to outsiders. For instance, showing large re-measurements of inventory can lead to competitors gaining an understanding of the pricing relationships the entity has with its suppliers. A3 and P1 largely rebutted this. A3 argued that competitors are likely to know such information in any case

"That's the same discussion we had under IFRS 8³⁴. We've been having this discussion around sensitive information for I don't know how long. I think the last place where you're allowed the sensitive information reprieve is IAS 37 if you've got a contingent liability or a court case...The reality is that your competitors know your strategy. If you're telling me that Apple sells its tablet cheaper than another product, it's not like the market doesn't know. I think there's also Professor King who says there's a difference between transparency and nakedness. And I think we're not

³⁴Operating segments

asking [companies] to bare everything in the integrated report but to talk broadly about it to the level where you can understand.” (A3).

L3 was concerned that entities would be resistant to implementing fair value-based information on the grounds that it would reflect the nature of its selling strategy, or else provide competitors with insight into the manner in which entity’s management thinks.

Table 6 below provides a summarised description of the major concerns raised by the respondents, and their respective views on these matters (if applicable).

Table 6 – Understanding respondents’ views on accounting for inventory at fair value

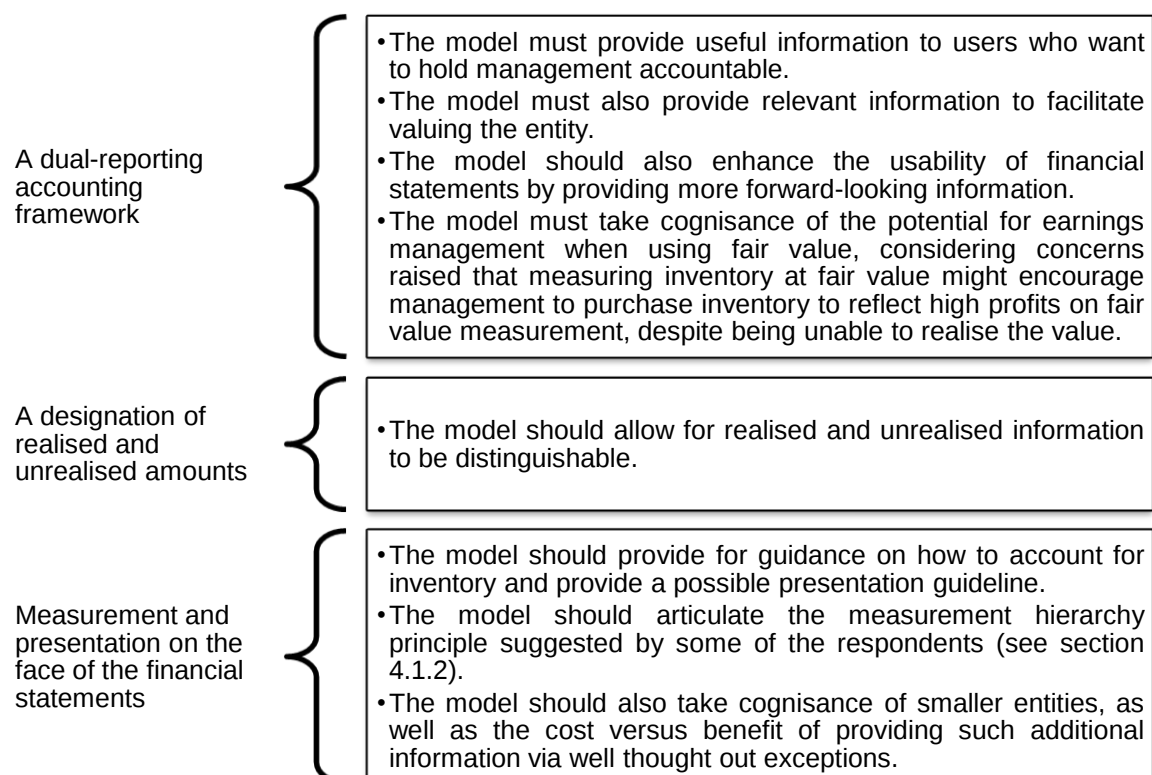
Key issue	Respondents for	Opposing
Cost is the most appropriate measurement for inventory.	A1; A3; A4; A5; A6; P1; P2; L3; L4	L1; L2
Fair value is the most appropriate measurement for inventory.	L1; L2; A3	A4; A5; P1; P2; L3; L4
The accounting need not be altered, but should be improved: disclosures should be provided.	A2; A4; A5; L3; L4	L1; L2
There is complexity and subjectivity when using fair value measurement which reduces its usefulness.	A1; A2; A3; A4; A5; P1; P2; P3; L3; L4	L1; L2
There is a cost-benefit trade-off to using a fair value method.	A1; A2; A3; A4; P1; P2; L3; L4	N/A
A current value methodology would be appropriate.	A1; P3	L2; A3; A4; P1
A measurement hierarchy could be adopted and would be useful ³⁵	A1; A3; P1; P3; L3	A4; L1; L2; L3; L4;
There is a risk that accounting other than at cost leads to providing outsiders with too much information about the entity	A2; P2; L1; L3	A3; P1

³⁵ By, for instance, having fair value as the principle measurement and then alternative measurement possibilities based on the inability to obtain appropriate information to estimate a fair value.

4.1.3 The tensions and issues which a revised model for inventory needs to address

The following diagram highlights the key issues which a revised model to account for inventory would need to address to provide decision-useful and relevant information to users.

Diagram 1 – Issues the revised model should address



CHAPTER 5 – A NORMATIVE MODEL FOR ACCOUNTING FOR INVENTORY

5.1 Proposed alternative model

This model incorporates elements from the above discussion to arrive at a method for accounting for inventory which satisfies what the respondents believe to be the purpose of financial statements while also providing appropriate and objective information pertaining to inventory.

The model allows both cost-focused and fair value-focused users to obtain the information which they believe should represent the performance figure. The model achieves the objective of synthesising accountability and neoliberalism without compromising information for either user group. The model also provides a conceptual basis for other comprehensive income. It uses OCI to present unrealised movements while net profit reflects realised gains and losses. By using OCI in this way, it also becomes possible for the statement of financial position to be reflected at fair value, whereas the statement of comprehensive income (excluding OCI) can be presented net of unrealised fair value changes.

Further, the model suggests a manner in which to account for inventory not provided for in IAS 2 and based on the respondents' answers, this new methodology for accounting for inventory will enhance the information value of financial statements.

The model does not use OCI to reflect non-operational movements. While some respondents (A5; A6; L4) were of the opinion that OCI should reflect non-operational movements, other respondents suggested that there was no real underlying concept to support this theory (A2; A3).

A drawback to the model pertains to the measurement of the inventory. Due to the lack of agreement on the most suitable measurement technique (discussed in Section 4.1.4.), the hierarchy principle suggested by the respondents may be considered a practical expedient in order to reduce the cost implications for entities. Further, A4 highlighted how analysts do not take fair value per IFRS 13 at its face value but perform their own adjustments to it because of differing assumptions by analysts compared to management. There is a risk that fair value measures, far from easing the valuation of an entity for analysts, may further complicate matters. This, however, should be investigated in subsequent research.

Fair value is used because, despite the subjectivity associated with developing the values articulated by the respondents, it reflects market-specific values. As L1 argued, it has become a more pervasive measurement value throughout the standards³⁶. The presentation format per the model also allows for fair value to be used because it provides relevant information to those users who want it, while others who do not may consider only the historical cost information.

³⁶ A detailed discussion of the usefulness and appropriateness of fair value is beyond the scope of this research and is deferred for a future study.

Further, the model does not result in a trade-off between accountability and neoliberal information. A trade-off suggests that some reporting value is foregone in order to arrive at a mutually acceptable resolution. Under this model, no information value is sacrificed as both user groups can extract the information they seek.

5.2 The model

Information pertaining to the model is presented below. In the scenario, inventory information for a manufacturing entity is provided over two years, Year 1 and Year 2. It is assumed the entity only manufactures a single product and that the cost figure is arrived at appropriately per IAS 2. The entity operates a first-in-first-out inventory measurement system.

In 20X1 year, 10 units were produced at CU9³⁷ each and 8 were sold for CU9.30 when their fair value was CU9.50 each, leaving 2 units on hand with a fair value at year-end of CU9.80 each.

In 20X2, 12 units were produced at CU10 each, and 13 units were sold for CU10.20 each when their fair value was also CU10.20, leaving one unit on hand at a fair value at year-end of CU10.40.

Table 7 – Scenario information

Year 1	Units	Cost	Selling Price	Fair value
<i>Produced</i>	10	9.00		
<i>Sold</i>	-8	9.00	9.30	9.60
<i>Closing stock</i>	2	9.00		9.80
Year 2				
<i>Opening stock</i>	2	9.00		
<i>Produced</i>	12	10.00		
<i>Sold</i>	-13	Mix	10.30	10.30
<i>Closing stock</i>	1	10.00		10.40

Table 8 illustrates how the inventory would be accounted for under the current IAS 2 cost-based paradigm and under a full fair value paradigm.

Under the IAS 2 paradigm, a gross profit of CU2.40 is recognised in 20X1 because of sales of CU74.40 and cost of sales of CU72. So the activity of selling the inventory is the only economic event

³⁷ Currency unit.

recorded in profit or loss. Under a fair value model, only the fair value movements of the inventory on hand are recorded. A fair value movement of CU6 is recognised on the 10 units up to the date of sale, and an additional fair value movement of CU0.40 on the 2 units held at year-end, marked up to their fair value.

Under a full fair value model, the gross profit margin is removed because the increase in value in the current year represents the increase in economic benefits associated with the inventory. Therefore, the full fair value gain is recognised as income in year 1. As discussed in Chapter 4, neither of these models provides appropriate information to all user groups.

Table 8 – Contrasting the different approaches in year 1³⁸	
Current IAS 2 model	
Statement of profit or loss	
Revenue (8x9.30)	74.40
Cost of sales (8x9)	(72)
Gross profit	2.40
Full fair value model	
Statement of profit or loss	
Fair value movement $[(9.60 - 9) \times 10 + (9.80 - 9.60) \times 2]$	6.40

The proposed hybrid model would operate as follows:

In Year 1, the gross profit would still be reflected as CU2.40 and the presentation of this would not change, retaining the gross profit margin information. However, additional measurement is provided for the fair value movement on the inventory sold up to the date of the sale. Because 8 units were sold, a “realised fair value” portion of CU4.80 is presented. This fair value is “realised” because of the past event of the inventory having been sold.

In order to reconcile this change in fair value, an opportunity gain or loss line item is introduced. In Year 1, an opportunity loss of CU2.40 was realised because 8 units were sold at 9.30 which is below their fair value of CU9.60 at the date of sale. So, it is possible to see whether management was able to unlock all the potential gains from the fair value movement up to the date of the sale. Because an opportunity cost arises, it is possible to assess whether management is pushing volumes at below market prices, selling fewer items at higher prices or if management is inefficient by selling goods at below market price.

³⁸Information used to calculate the amounts can be found under Table 7 – Scenario Information.

Disclosure is also provided in OCI. OCI is used to link net profit to the statement of financial position, while also providing information on unrealised movements in fair value. The fair value movement on the two unsold inventory items at year-end is CU1.60. It represents the value which management can be expected to realise from the sale of this inventory in the following year. A reconciliation to this CU1.60 is provided by reflecting the full fair value movement of CU6.40 as it would have appeared under a full fair value net profit calculation and deducting from this CU6.40 the “realised” portion of this fair value movement.

Table 9 – Proposed hybrid model in year		
Statement of Comprehensive Income		
Revenue – same		74.40
Cost of sales – same		(72)
Gross profit– same		2.40
Realised fair value (8x(9.60-9))	4.80	
Opportunity cost (9.60-9.30)x8	(2.40)	
Other Comprehensive Income		
Movement on remaining unrealised fair value [(9.80-9)x2]		1.60
Total fair value movement [(9.60-9)x10 + (9.80-9.60)x2]	6.40	
Fair value realised through sales [(9.60-9)x8]	(4.80)	

Table 10 presents the hybrid approach in Year 2. The calculation for gross profit remains the same and the reconciliation of the realised fair value and opportunity cost to the gross profit is not altered. However, additional disclosures are provided in OCI.

Even though the movement on the unrealised fair value calculation remains the same, the reconciliation of this amount presented below is different from that in Year 1. The opening balance of the “fair value reserve on inventory”, CU1.60, is reconciled to the new balance of CU0.40. The current year full fair value movement of CU3.40 is again netted off against the realised fair value portion of CU3. The opening balance of CU1.60 was also realised during the year because the entity operates a first-in-first-out inventory system and the entire fair value amount becomes realised.

Table 10 – The hybrid approach in year 2		
Statement of Comprehensive Income		
Revenue - (13x10.30)		133.90
Cost of sales - (2x9 + 11x10)		(128)
Gross profit		5.90
Realised fair value [(10.30-9)x2 + (10.30-10)x11]	5.90	
Opportunity cost [(10.30-10.30)x13]	0	
Other Comprehensive Income		
Movement on remaining unrealised fair value [(10.40-10)x1]		0.40
Opening balance	1.60	
Total fair value movement (10.30-9.80)x2 + (10.30-10)x12 + (10.40-10.30)x1	4.70	
Fair value realised through sales (10.30-9.80)x2 + (10.30-10)x11	(4.3)	
Realised fair value from prior year (9.80-9)x2	(1.60)	

The following table suggests the likely agreement or disagreement of respondents to the model based on their recorded responses:

Table 11 – Respondents' anticipated reaction to the model				
	Auditors	Preparers	Academics/legislators	Total
Agree with model ³⁹	50%	66%	25%	46%
Agree principally but with practical reservations ⁴⁰	50%	34%	N/A	31%
Agree practically but with theoretical reservations ⁴¹	0%	0%	25%	8%
Disagree with model ⁴²	0%	0%	50%	15%

³⁹ These respondents would agree with the model in its entirety and would not request changes to the measurement or presentation proposed in Chapter 5.

⁴⁰ These respondents would agree in principal to the model but have reservations about various issues. These include the use of fair value, the possibility of conveying sensitive information to outsiders, the possibility of the model costing more than the benefit it provides, as well as the increased complexity of auditing such a model.

⁴¹ This respondent would agree that the model is practically sound but it largely achieves little because it is merely a disclosure device. The argument of this respondent was that changing the measurement or presentation of any economic phenomenon does not change the reality of that phenomenon, but rather just changes the way in which that reality is communicated.

CHAPTER 6 - CONCLUSION

Increasing divergence of views on whether to use a cost-based or fair-value based measurement methodology which can be broadly equated to an accountability and neoliberal paradigm, respectively, has resulted in substantial trade-offs in accounting standards (Basu et al., 2009; Murphy et al., 2013; Ravenscroft & Williams, 2009; Whittington, 2008). These trade-offs emerge because of theoretical and political interplay among actors in the accounting world, and Murphy et al. (2013) argue that it is not possible to synthesise either of the paradigms because of their antithetical characteristics.

This has, arguably, resulted in tension between proponents of each of the two paradigms, with this conflict resulting in a significant risk to the legitimacy of accounting practice as a result of its inability to satisfy any user group's needs (Zhang & Andrew, 2014). Such contradictory information (see Section 2.2.2) leads to accounting standards which lack theoretical consistency and, in their pursuit of satisfaction for multiple user groups, erode their own legitimacy (Murphy et al., 2013)

The model developed in Chapter 5 aids standard setters by providing a dual-reporting framework with which opposing accountability and neoliberal perspectives can be resolved. This contributes to the need for a framework which reduces the detrimental effect which trade-offs have on the accounting landscape (Whittington, 2008).

1. Summary of the model

Thirteen interviews with financial reporting experts were conducted. These provided valuable data on the conflict between accountability and neoliberalism, largely articulating the issues explored by the literature. While the data is not generalisable in a positivist manner, it provides valuable insights into the tension between accountability and neoliberalism and the need for a dual-purpose financial reporting framework.

However, the findings from the interviews ran contrary to Whittington (2008)'s and Murphy et al. (2013)'s arguments. Whittington (2008)'s argument that fair value cannot be used to hold management accountable was disputed by most respondents (see Section 4.1.1), with respondents arguing that financial statements had a dual-purpose: to hold management accountable and to provide information with which to value an entity (A3). The findings also suggest that Murphy et al. (2013)'s argument that the two opposing paradigms cannot be synthesised is incorrect. While the respondents articulated that the 'living law' of accountability is still very much a feature of the accounting landscape, accountability can be used to enhance a fair-value based measure of financial position and performance rather than be seen as an opposing perspective.

The model provides for accountability information through a cost-based gross profit margin, while providing for fair value information through other comprehensive income. The model suggests a

⁴² These respondents would reject the model in its entirety because either (1) net profit does not include fair value changes or (2) it incorporates fair value measurement of inventory.

manner in which the statement of financial position be held at fair value. Further refinement of the model to be made applicable to all standards will achieve a statement of financial position at fair value. This model is a major contribution as it is a step towards this ideal.

Additionally, under this model, net profit after tax reflects a cost-based performance measure, with other comprehensive income linking the two statements. In effect, the total comprehensive figure becomes a performance measure which can be used by neoliberally-oriented users as it contains fair value movements, while net profit after tax can be used by accountability-oriented users.

The model further allows for realised and unrealised amounts to be split, with realised amounts reflected in net profit after tax and unrealised amounts reflected in other comprehensive income. This has the ancillary effect of providing a conceptual basis for other comprehensive income.

Lastly, the model suggests an alternative manner to account for inventory by reflecting inventory at fair value in the statement of financial position.

2. Contribution of the research

The findings of the study suggest that it is possible to synthesise the two paradigms, providing a dual-reporting framework which standards setters can use as a theoretical basis when deliberating on future standards.

Fundamental technical contributions are also made. Firstly, a manner to account for inventory which is different from the current IAS 2 accounting is found to have broad support among, particularly, auditors and preparers. Secondly, the research makes a valuable contribution to the understanding of other comprehensive income by, as indicated above, articulating a theoretical basis for what other comprehensive income is and is not. Thirdly, the model allows for the statement of financial position to be shown at fair value, while the statement of profit or loss can be maintained at historical cost, providing users with both relevant and reliable information with which to assess management and value an entity. The research suggests the dual-reporting framework will make a contribution to eliminating trade-offs in financial accounting, improving the usefulness of financial statements.

Finally, the research makes a valuable practical and empirical contribution. It provides primary evidence on the interpretation and application of accounting theory in a real-world setting. In doing so, the thesis complements the large body of academic work which deals with the relevance of accountability and neoliberalism for explaining developments in accounting. The prior research focuses on the macro-level while evaluating the technical methods for specific balances and transactions has been overlooked. This allows the study to offer a practical perspective on how to account for inventory which can be evaluated by practitioners and standard setters. It can also be used to inform changes to IFRS. This is, ultimately, because of the normative tone of this work which, unlike mainstream accounting research, encourages critical evaluation of accounting practice and drives the need for meaningful reform.

3. Future research⁴³

The study opens up a number of avenues for future exploration in both the theoretical tension between accountability and neoliberalism and in the practical accounting field.

The synthesis of the two paradigms allows researchers to elaborate on the continued relevance of accountability and neoliberalism to financial reporting.

- Specifically, future researchers can explore in greater detail the ability of fair value to hold management accountable, while also further researching this study's finding that financial statements have two main purposes which work together; to hold management accountable and to provide information with which to value an entity.
- A researcher may also explore the effect which this study's proposed model may have on the standards setting space, specifically whether it can change the political dynamics of the standards settings process.

From a technical accounting perspective:

- Firstly, the model should be presented to users so as to evaluate its external validity in greater depth. This would be done to evaluate the model's usefulness in the eyes of a greater number of users.
- In addition, the conflict concerning the reliability of fair values which was discussed by most respondents should be explored further in order to provide insight into the factors which would increase fair value's legitimacy in the eyes of its sceptics.
- A further issue which may be explored is whether the present value of the maintenance costs of a fully depreciated item of PPE approximates its fair value (P1).

⁴³ Please see Section 1.4 for a list of limitations and delimitations on which these future areas of research can draw.

Appendix A – Information sheet for participants

INFORMATION SHEET FOR PARTICIPANTS



Ethics clearance number: **CACCN/1127**

Title: Accounting for inventory: A synthesising of accountability and neoliberalism

Dear Sir/Madam

We would like to invite you to participate in this research project. Choosing not to take part will not disadvantage you in any way. Before you decide whether you want to take part, it is important for you to understand why the research is being done and what your participation will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information.

- In this study we want to assess whether the current accounting for inventory can be improved.
- If you agree to participate, a time will be scheduled for an interview which is expected to take not more than sixty minutes to complete.
- There are no material risks posed by participating. Your identity and place of employment will be kept confidential. No personal information will be collected from you. There are also no right or wrong responses – this research is only interested in your own experiences and impressions.
- Interviews will be audio recorded, subject to your permission. The interview will be transcribed and kept on file by the researcher but your identity and that of your employer and/or clients will be kept confidential and will not be referred to directly in the final research report.
- You will not receive any compensation for participating in the research.
- Should you be interested, a copy of the final report will be available to you on request.

If you decide to take part you, are free to withdraw at any time and without giving a reason. In addition to withdrawing yourself from the study, you may also withdraw any data/information you have already provided up until it is transcribed for use in the final report.

If this study has offended you in any way you can contact the University of the Witwatersrand using the details below for further advice and information:

Details	Researcher 1	Researcher 2
Name	Justin Logie	
Contact number		
Email address	Justin.logie@wits.ac.za	

CONSENT FORM FOR PARTICIPANTS IN RESEARCH STUDIES

Please complete this form after you have read the Information Sheet and/or listened to an explanation about the research.

Title of Study: Accounting for inventory: a synthesising of accountability and neoliberalism

Ethics Clearance Number: CACCN/1127

Details	Please tick or initial
I understand that if I decide at any time during the research I no longer wish to participate in this project, I can notify the researcher involved and withdraw from it immediately without giving any reason. Furthermore, I understand that I will be able to withdraw my data up to the point of submission of my responses.	
I understand that the information I have submitted will be published in a thesis and an academic journal and that I can request a copy of the final article.	
I understand that my personal information will not be collected.	
I consent to my interview being recorded and the data being used in the research/my questionnaire being included in the final results.	

Participant's Statement:

I _____

agree that the research project named above has been explained to me to my satisfaction and I agree to take part in the study. I have read both the notes written above and the Information Sheet about the project, and understand what the research study involves.

Signed _____

Date _____

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