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INDIVIDUATING ASSETS AND LIABILITIES IN FINANCIAL ACCOUNTING

Abstract

Until recently, accounting theorists gave little thought to what makes a particular instance of an asset or liability a single object and the very object it is – what *individuates* assets and liabilities. This paper offers an analysis of this individuation in the IASB's conceptual framework. It can be read at two levels: as an exploration of the coherence of the framework in its own terms, or, at a deeper level, as a philosophical analysis, located within philosophical pragmatism.

I argue that the IASB framework's individuation is radically incoherent. I set out the case for a pragmatist approach and offer pragmatist principles of individuation. Standard-setters have recently given some attention to individuation via a new kind of accounting object, the unit of account, and this is taken further in the IASB framework. This thinking is a good deal more convincing than the attempt to individuate assets and liabilities and is consistent with pragmatist principles. I propose reconceptualising assets and liabilities using the principles developed for the unit of account.

The paper extends our understanding of the way assets and liabilities are conceptualised in financial accounting; my proposal would improve the coherence of the conceptual framework in its own terms, provide a philosophically sound underpinning for its individuations, and open up the possibility of reconnecting the framework to the pragmatist epistemology encountered in classical accounting theory, extending the underpinning to the framework as a whole and, perhaps, reviving scholarly interest in the accounting theory of the framework project.

Keywords

Assets; conceptual framework; individuation; liabilities; pragmatism; unit of account

INDIVIDUATING ASSETS AND LIABILITIES IN FINANCIAL ACCOUNTING

Financial reporting involves the representation of an entity's economic resources and obligations as accounting objects and, specifically, as assets and liabilities. Accounting theorists have long pondered the characteristics that define assets and liabilities as *kinds* of accounting object but they have given less thought – in fact, until recently, hardly any thought at all – to what it is that makes a particular instance of one those kinds a single object, just one object, and the very object that it is: as philosophers put it, what *individuates* assets and liabilities. This paper offers an analysis of the individuation of assets and liabilities in financial accounting's conceptual framework, and, in particular, that of the International Accounting Standards Board (IASB), in the version issued in 2018 (International Accounting Standards Board, 2018; henceforth IASBCF 2018). The paper can be read at two levels. At one level, it simply offers an exploration of the cogency and coherence of the framework's treatment in the framework's own terms. At a deeper level, it offers a philosophically rigorous analysis, located within the metaphysics of American philosophical pragmatism, which provides an underpinning for the argument of the paper and, potentially, for conceptualisation within the framework generally. For several reasons, some of which I allude to later in the paper, I do not attempt, to borrow Power's phrasing, a 'sociology of accounting individuation' (2010, p. 198).¹

The analysis is directed primarily at assets and liabilities because these provide the fundamental core of the system of financial statement elements in conceptual frameworks generally, including IASBCF 2018 (Tweedie, 1996; Storey and Storey, 1998). I refer mainly to IASBCF 2018 because it is the most recently adopted full revision of a conceptual framework employed by a widely-recognised body of accounting standard-setters and springing from the original project to establish such a framework for standard-setting undertaken by the US Financial Accounting Standards Board (FASB) (Zeff, 1999; Camfferman and Zeff, 2015).²

Principles of individuation are 'the principles by which things, normally of a kind, are distinguished into

¹ For a comparison of the two types of analysis, and examples of each, see Erb and Pelger (2015). Power's actual reference is to a 'sociology of accounting reliability'.

² The FASB's framework was developed between 1973 and 1985 (Storey and Storey, 1998) with a further chapter issued in 2000. The IASB's forerunner, the International Accounting Standards Committee, issued its first version, following the 'pattern' of the FASB's (Camfferman and Zeff, 2015, p. 358), in 1989 (International Accounting Standards Board). In 2004 the FASB and the IASB agreed to work jointly on a revised common pronouncement; in 2010 they suspended further work on the joint project, each adopting revised chapters on the objective of financial reporting and qualitative characteristics of useful financial information but leaving remaining material from their earlier frameworks in place (Camfferman and Zeff, 2015). In 2012 the IASB resumed work independently and its fully revised version was issued in 2018. The FASB has since resumed work but revisions covering financial statement elements remain at a preliminary stage (Financial Accounting Standards Board, 2020).

single individuals, most often at some given time' (Wolfram, 2005, p. 432) or, put another way, the principles governing the 'process whereby a universal, eg. *cat*, becomes instantiated in an individual – also called a particular – eg. *Minina*' (Gracia, 2015, p. 507, emphasis supplied). For analytic philosophers,

the term 'individuation' has both a metaphysical and an epistemic ... sense, although these two senses are closely related. In the epistemic sense, individuation is a cognitive activity – something that we, or intelligent beings in general, can *do*. For someone to *individuate* an object, in this sense, is for that person to 'single out' that object as a distinct object of perception, thought, or linguistic reference.... One can only 'single out' objects which are there to be singled out, that is, parts of reality which constitute single objects. Individuation in the metaphysical sense is an ontological relationship between entities: what 'individuates' an object, in this sense, is whatever it is that makes it the single object that it is – whatever it is that makes it *one* object, distinct from others, and the very object that it is as opposed to any other thing (Lowe, 2005, p. 75, emphasis supplied).

Individuation is not a straightforward matter, even for philosophers. They offer a variety of alternative individuating bases (Lowe, 2005), including *tropes*, in this context, intrinsic properties conceived as particulars; the *substrata* in which objects' properties can be taken to inhere; and the haecceities – literally, the 'thisnesses' – of objects.

I begin the paper by defending my claim that individuation has received little attention from accounting theorists and arguing that it is, nonetheless, an important problem in financial reporting. IASBCF 2018 does address the question of what might count as an individual asset or liability and I examine its position, arguing that it is radically incoherent. I then argue the case for a pragmatist philosophical approach to financial reporting and its conceptual framework and set out pragmatist principles of individuation, drawn from Boersema's (2009) ontology, that can provide a sound philosophical underpinning for an individuation of assets and liabilities.

Accounting standard-setters have recently been giving some attention to individuation in the statement of financial position via conceptualisation of a new kind of accounting object, the unit of account, and this is taken further in IASBCF 2018. I suggest that the framework's thinking here is a good deal clearer and more convincing than its attempt to individuate assets and liabilities and, further, that it is consistent with Boersema's pragmatist principles of individuation. What is needed, I suggest, is a modest but significant further move in the framework's argument, reconceptualising assets and liabilities using the principles it has developed for the unit of account and abandoning the latter object. The concluding section presents the case for this reconceptualisation and examines its implications.

I believe this to be the first discussion of individuation in the conceptual framework using a philosophical perspective and directed at what counts as an asset or liability; it falls into the small category of philosophical critiques of the framework intended to work 'with the grain' of the project and thus to contribute helpfully to it. The paper extends our understanding of the way assets and liabilities are conceptualised in financial accounting;

my proposal would improve the coherence of the conceptual framework in its own terms, provide a philosophically sound underpinning for its principles of individuation, and open up the possibility of reconnecting the framework to the pragmatist epistemology encountered in classical accounting theory (Rutherford, 2013), extending the philosophical underpinning to the framework as a whole and, perhaps, even reviving scholarly interest in the accounting theory of the framework project.

THE PROBLEM OF INDIVIDUATION IN FINANCIAL ACCOUNTING

Until the present century the professional and academic accounting literatures largely ignored the problem of individuating accounting objects, taking individuation to be entirely self-evident or, at least, sufficiently obvious to need only personal judgement by individual practitioners acting in concrete cases without systematic or authoritative guidance. The former attitude is apparent in the work of distinguished theorists like William Paton, in textbooks of accounting theory, in debates about theory, in accounting standards, and even in sections of the original FASB framework. Paton (1922, pp. 30-37), while discussing the nature of assets *as a class* at length, simply takes it for granted that some *individual* assets can be readily identified: ‘we will suppose the property of the X Co. to consist of the following items ...’ (p. 31). Hendriksen’s classic textbook (1982, chapters 11-12) proceeds directly from a discussion of ‘the nature of assets’ (p. 250) as a class to measurement and classification. The furious debate (Chun, 1989) which raged around whether the current cash equivalents in Chamber’s exit-value system could properly be added up for parcels of items never doubted that there would be an unproblematic starting point for the aggregation. In International Accounting Standard (IAS) 2: Inventories, ‘[i]nventories’ are defined as ‘assets: (a) held for sale ...; (b) in the process of production ...; or (c) in the form of materials or supplies ...’ (International Accounting Standards Board, 2003a, paragraph 6, emphasis omitted), implying that, at a minimum, these three categories constitute separate assets but going no further to prescribe whether it is actually subcategories of these categories or individual stock units that constitute particular assets. The introduction to the relevant chapter of the US conceptual framework (Financial Accounting Standards Board, 1985, paragraphs 1-23) discusses matters at a high level of generality, using terms such as assets for ‘broad classes’, and the formal definition of assets is given in the plural (paragraph 25). The discussion then immediately proceeds to a consideration of the characteristics of objects satisfying that definition but refers to the bearers of those characteristics in the singular; the immediately following paragraph actually begins, ‘[a]n asset has three essential characteristics’ (paragraph 26, emphasis added). The treatment of liabilities follows similar lines. The next chapter sets out recognition criteria to be applied to ‘an item’ (Financial Accounting Standards Board, 1984, paragraph

63) in the singular and it is difficult to see how the procedure as specified could be applied in a single pass to even a whole sub-category within one class of objects, so that we can take it that items must have already been individuated in some way.

IAS 16: Property, Plant and Equipment (International Accounting Standards Board, 2003b, paragraph 9) does concede a need for judgement but apparently does not consider it to be the sort of judgement that requires systematic guidance: '[t]his Standard does not prescribe ... what constitutes an item of property, plant and equipment. Thus, judgement is required in applying the recognition criteria to an entity's specific circumstances'. Financial reporting's traditional use of transaction-based accounting and historical cost smooths the way for practitioners devising practical manoeuvres to arrive at such judgements in many cases, for both property, plant and equipment and other categories (Benston, *et al.*, 2006): discrete transactions provide a starting-point for individuation and accounting allocation of purchase price (Thomas, 1969; Thomas, 1974) takes care of any obvious need for disaggregation. It is not difficult to identify conceptual challenges to such workaday expediency, however. Consider a manufacturer seeking more storage space and finding that the most economical means of securing it is to purchase an adjacent warehouse which, however, has more capacity than the manufacturer is likely to need – say, six bays rather than five (Rutherford, 2000, pp. 74-76). Suppose also that, because of its location or for security reasons, the manufacturer would not wish to sub-let the extra space and that the cost of servicing space is such that it is cheaper to leave one whole bay empty rather than distributing stock across the whole warehouse. Accounting for the transaction is unlikely to detain practitioners long: it will be treated as the acquisition of one asset, the warehouse, recognised at a carrying amount equal to its purchase price. In the unlikely event of an argument about the unused bay, it will be met with the response that the practical consequence would be unchanged if the transaction were treated as the acquisition of five bays at allocated carrying amounts including, in the words of IAS 16, 'costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management' (International Accounting Standards Board, 2003b, paragraph 16(b)), that is the full purchase price divided by five. That the practical consequences are the same does not mean that there are no differences of principle between the two depictions; we might ask, for example, how to make theoretical sense of the outcome if a careless delivery driver demolished one of the bays in use but management decided neither to repair the damage nor impair the carrying amount, preferring to move stock to the unused bay.

The problem of individuation arguably underlies some of the most serious controversies in accounting practice, albeit while remaining latent. Perhaps the most sizeable case, physically and financially, is the issue of

full cost versus successful efforts accounting for the exploration stage in extractive industries (Rutherford, 2000, pp. 85-86; Gray, *et al.*, 2019). One way of looking at the issue is as a conflict between taking a large production unit such as a field, or even a wider geographical area, as a single asset (resulting in full costing) against taking individual wells as the assets (resulting in successful efforts accounting); on this view, deciding on the individuation of assets answers the question of how they should be reported. An alternative way of justifying full costing is to treat individual wells as separate assets but take the expense of dry wells to be part of the cost of locating productive wells (as in the warehouse case). This argument (which is alluded to in the US conceptual framework, Financial Accounting Standards Board, 1985, paragraphs 169 and 247 and notes 60 and 74) successfully squares both policies with the same individuation of assets but does not explain *why* it is wells and not fields that are assets, nor, come to that, help in explaining why two very different numbers in the statement of financial position are consistent with the same underlying events.³ Equivalents to full costing, justified by either argument, are not now widely employed outside the extractive industries, although this has not always been the case.⁴ Developmental assets of pharmaceutical manufacturers are now aligned with individual drugs rather than wide-ranging exploratory portfolios and the costs of unsuccessful research are not loaded onto viable products despite the obvious need to pursue exploratory research. The widespread convergence on this approach, however, does not help us to infer why the asset is an individual drug rather than a portfolio of related efforts by a laboratory.

As a Discussion Paper prepared by the Canadian Accounting Standards Board for the IASB (International Accounting Standards Board, 2005; see also Barker and Teixeira, 2018), to which we will return, points out, the individuation problem is actually widespread. Different individuations of property, plant and equipment may yield different depreciation patterns (for example, of lifts within buildings, furnaces and linings and aircraft and engines). For measurement methods other than historical cost, different individuations of self-constructed buildings may yield different carrying amounts. Similar problems can arise for inventory purchased in one transaction which could have been acquired in more than one, work in progress and finished goods. The problem of individuation is in fact endemic to the accounting domain: resources and obligations simply do not present themselves in unproblematically monadic oneness in the ‘natural’ world of business. That the absence of explicit

³ While it was grappling with the production of its framework, the FASB attempted to prohibit what it referred to as full costing but was forced to retreat by the Securities and Exchange Commission. Its definition of full costing referred to the employment of very widely-drawn units such as countries or even the entire activity of the company, so that successful efforts left available focusing on ‘areas of interest’ rather than necessarily on individual wells and the problem referred to here would have remained; the IASB currently offers limited guidance on extractive industry accounting (Gray, *et al.*, 2019).

⁴ The application of IAS 16 to bearer plants, under which assets can be individuated as discrete plants or aggregations such as fields or planting cycles, bears some resemblance to full costing (see International Accounting Standards Board, 2003, paragraphs BC80-81).

principles of individuation has gone largely unremarked because accountants, in their everyday work, have devised practical manoeuvres to cope with the problem is of considerable significance for this paper but does not mean that there is no conceptual lacuna.

ASSETS AND LIABILITIES IN IASBCF 2018

IASBCF 2018's approach to the preparation of financial statements, like that of its predecessors (Zeff, 1999), begins with the identification of items that meet the definition of a financial statement element. This identification requires that objects are individuated and tested against definitions prior to the next stage of the process, namely the application of the recognition criteria which will determine whether items passing the definitional test are included in statements:

Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses are recognised in the statement(s) of financial performance. However, not all items that meet the definition of one of those elements are recognised.... An asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in equity provides users of financial statements with information that is useful (paragraphs 5.6-7).

That the definitional test was separate from, and prior to, the application of recognition criteria was even clearer in the 1989 version of the framework (International Accounting Standards Board, paragraph 82) but it is implicit in the text quoted here and at other places (such as paragraphs 5.1 and BC5.3) and there is no reason to suppose that changes in the text between 1989 and 2010 are intended to alter this structure.

Financial statement element definitions flow from the position that,

[g]eneral purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity's economic resources and the claims against the reporting entity. Financial reports also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims (paragraph 1.12).

Accordingly, the framework defines an asset as 'a present economic resource' (paragraph 4.3) with specified characteristics that need not concern us at the moment; it then immediately defines an economic resource as 'a right that has the potential to produce economic benefits' (paragraph 4.4). The original concept defined is thus chained to two further classes of object in the business world, in both cases apparently to singular instances of objects drawn from those classes: *an* asset is *a* resource, which is *a* right. But, as far as these singularities are concerned, the text quite quickly descends into complications and a degree of conceptual muddle. The section immediately following the definition of an asset is headed 'Right' in the singular but actually mainly discusses rights in their plural generality. It includes the following paragraphs:

In principle, each of an entity's rights is a separate asset. However, for accounting purposes, related rights are often treated as a unit of account that is a single asset. For example, legal ownership of a physical object may give rise to several rights, including: (a) the right to use the object; (b) the right to sell rights over the object; (c) the right to pledge rights over the object; and (d) other rights not listed in (a)–(c).

In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the economic resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way (paragraphs 4.11-4.12, cross-reference omitted).

These paragraphs concede that rights (and thus, on the framework's definitions, resources and assets) tend to associate together but imply that this is a trivial matter because it will be possible unproblematically to discern bundles to be 'treated' as a unit of account forming a single asset, while simultaneously holding that particular, singular, rights, can be identified in principle as individual assets. As a consequence of this dual approach, we encounter – in a conceptual framework, of all places – some of accountancy's favourite weasel words: '*for accounting purposes*, related rights are often *treated as ... a single asset*' (paragraph 4.11, emphasis added); something is '*accounted for as a single asset*' (paragraph 4.12, emphasis added) even though apparently it isn't one.

The exemplification of rights in the third sentence of the first paragraph quoted above (paragraph 4.11) is confused, to the point of being seriously misleading, in two ways. The use of the plural in the introductory clause but the singular at the beginning of each of sub-paragraphs (a) to (c) implies that what the authors have in mind when they refer to 'several rights' in the introductory clause are different *kinds* of rights but in fact, as the remainder of the text of sub-paragraphs (b) and (c) concedes, rights break down into much smaller divisions than just different kinds. Even the sort of physical item it is difficult to imagine functioning other than in its entirety – the pen in my hand, say – is composed of multiple rights; for example, the right to use it this week, the right to use it next week, and so on, each of which can be disposed of (for example by lease) separately. What's more, not even the different kinds of rights identified in the paragraph quoted could all count as separate assets in principle: the right to use my pen over its life and the right to sell it immediately are different rights but not separate assets that I ought to be allowed to include in my statement of financial position, although the right to use it for twelve months and to sell it thereafter are.

Actually, any given specified right can be further and further sub-divided into ever-smaller slivers, each of which may be labelled a (single) right but is in fact subject to further division; meanwhile, counting them all would overstate the resources held by the owner of the rights. There is no 'natural' stage within the process of division at which a right constitutes one, individual, singleton right, such that further division would yield fractions of rights. Given the evanescent, fleeting, fugitive nature of the singular right, it is difficult to see how, even on the

most abstract of principle, it actually makes sense to attempt to individuate assets by viewing an asset as embodying only one singular right.

Finally, it is worth noting how firmly the quoted passage makes it clear that, conceptually, what is of fundamental importance is the accounting object – the set of rights or economic resource – and not the operating item – for example, the physical object – that may generate them, however much the latter is used for reference purposes. Thus, the operating item cannot be used to overcome any ambiguity about what counts as a set of rights or a resource at the conceptual level.

Liabilities can be dealt with rather more briefly. The definition of a liability is ‘a present obligation of the entity to transfer an economic resource’ with a specified character, paralleling the asset case (paragraph 4.26); we have already seen that an economic resource is defined as a (singular) right and that the idea of a single right is problematic. Even the consequence of a single, discrete, financial transaction, however much it may look like a single obligation, is, in principle, composed of a duty to transfer £1 plus a duty to transfer another £1, and so on, and many obligations break down in more complex ways.⁵ Hence the arguments set out already in this section apply equally to liabilities.

The analysis of the definitions of an asset and a liability in this section shows that they are radically incoherent. Happily, we can find elsewhere in IASBCF 2018 the key to resolving this incoherence in a way that also offers a cogent philosophical underpinning for new individuations of assets and liabilities. Before I move on to explaining the necessary development in the argument, however, I need to set out the philosophical position on which I draw.

A PRAGMATIST APPROACH TO ARTICULATING ACCOUNTING PRINCIPLES

John Dewey, one of the founders of pragmatist philosophy, propounded a theory of inquiry (Dewey, 1938) which argues that knowledge acquisition begins when we encounter a problem: in this situation we undertake two kinds of operation, functionally different but pursued in correspondence with each other.⁶ Observations, guided initially by instinct and habit, begin to establish the terms of the problem situation, then guide efforts to achieve a meaningful structure for it and test potential solutions; conceptualising begins the theorising that can explain observations, guides further observational work and seeks to ‘organise all the selected facts into a coherent whole’ (Dewey, 1938, p. 113). These two types of operation engage with each other in cyclical interaction and are

⁵ As anyone will understand who has taken the trouble to read the information on their credit card statement about the order in which a payment will be applied to their balance.

⁶ For a fuller exposition of Dewey’s theory of inquiry applied to financial reporting, see Rutherford (2013).

successful when observational and conceptual operations are stable and coherent and conceptualisation is in comportment with experience (Burke, 1994, pp. 158-64). Claims to knowledge are inevitably tentative and are to be judged by 'their pertinency and efficacy in "satisfying" conditions that are rigorously set by the problem they are employed to resolve' (Dewey, 1941, pp. 182-83). Dewey's realism is 'transactional' (Sleeper, 1986, p. 92), not transcendental, and the perceptual/conceptual cycle is always at work. In order to avoid further problems arising from clashes in the knowledge base, claims must ultimately function within a scheme that works, not just within the particular and local conditions of any one discrete problem situation, but in the large, over time, consistently, systematically, stably and across all relevant settings. For philosophical pragmatists, including Dewey, 'what is important is what fits with all the experience that would be available, what the community of inquirers would converge upon' (Misak, 2000, p. 95):

The characteristic idea of philosophical pragmatism is that efficacy in practical application – 'What works out most effectively in practice' – somehow provides a standard for the determination of truth in the case of statements, rightness in the case of actions, and value in the case of appraisals (Rescher, 2005, p. 747).

In this sense, at this high level of generality, Dewey's philosophy is instrumentalist.

Facts and values interpenetrate each other in the web of knowledge beyond any possibility of their being distinguished other than conceptually, not least (and even in the natural sciences) in the reliance placed on epistemic and ethical values such as parsimony and honesty. A degree of objectivity can nonetheless be achieved based on open-mindedness, appropriately designed investigation, disinterested analysis and free discussion within a community of inquirers (Putnam, 2002; Haack, 2006; Margolis, 2006; Bernstein, 2010). The broad scope of pragmatist philosophy's concern for 'efficacy in practical application' means that it is capable of making powerful interventions in the direction of critique and reform: 'the hallmark of a pragmatic method is its continual re-evaluation of practices in the light of the norms that govern them and of the norms in the light of the practices they generate' (Wells, 1992, p 331).

Coleman (2001) draws on two strands of pragmatist thinking to develop a theory of 'explanation by embodiment' to examine the relationship between practice and conceptualisation (principles) in professional disciplines, a theory he actually proposes in the context of legal practice.⁷ The strands are Sellars' inferential role semantics and Quine's semantic holism. Coleman develops from these the argument that 'the content of a concept can be analysed in terms of the inferential role it plays in the variety of practices in which it figures' (p. 7) and,

⁷ For a fuller exposition of Coleman's ideas applied to financial reporting, see Rutherford (2016).

further, that ‘the inferential roles our concepts play reveal the holistic (or semi-holistic) web of relations in which they stand to one another, and it is this web that determines a concept’s content’ (p. 7).

Coleman sets out the rationale for explanation by embodiment as follows:

In saying that pragmatism recognises *explanation by embodiment* as a legitimate form of philosophical explanation of a practice, I mean that in certain kinds of practices, the inferential roles of concepts may be seen to hang together in a way that reflects a general principle. The principle can then be said to be *embodied in the practice* and, at the same time, to explain it. When the knowledge expressed in such a principle is ... irreducibly practical, the actual practices themselves are needed to *realise, articulate, or make explicit* the principle or principles they embody (p. 8, final sentence is a footnote in the original, emphasis supplied).

In seeking explanation by embodiment, the practices in which concepts are embedded must themselves be viewed holistically. The structure of principles, concepts and practices is hierarchical: at each level, principles are given determinate content by the practices subordinate to them while at the same time guiding and constraining those practices. Coleman’s paradigm case is the way tort law embodies the principle of corrective justice (Coleman, 2001, Part I). Because grasping a concept can be a matter of ‘knowing how’, not necessarily reducible to ‘knowing that’, judges need not be articulating a legal theory in order to engage in legal reasoning; on the contrary, judges *determine* the content of a concept by engaging in legal reasoning. In the same way, it is ultimately accountants’ knowing how to, say, provide for obsolescent stock that constructs disciplinary concepts like prudence and net realisable value – rather than an individual accountant’s grasp of the concept of prudence leading ineluctably to the specific provision he or she makes on a particular occasion.⁸

Ideally, we might want to scrutinise the individual practices of accounting, or even of individual accountants, in pursuit of explanation by embodiment. However, because the structure of a discipline is to be viewed holistically and hierarchically, it is legitimate to draw on ‘high-level’ statements of disciplinary reasoning such as accounting standards and conceptual frameworks, provided that they are sufficiently engaged with the practices of the discipline. A standard mandating a reduction in the range of permitted policies can illuminate the higher-level principles on which that choice has been made; a standard mandating an innovatory policy can illuminate the principles from which the policy has been developed.

How far do conceptual frameworks mesh with accounting practice and – an even more challenging question – is the extent of the engagement sufficient to justify drawing on them as a source in explanation by

⁸ I am grateful to an anonymous reviewer for drawing my attention to the parallels between Coleman’s ideas and Ehrlich’s concept of ‘living law’ (for applications of the latter in accounting, see Murphy, *et al.*, 2013, and Erb and Pelger, 2015). An important difference, however, is that, in the latter, the focus is on how living law is articulated by ‘the moral or customary tradition of a particular community’ (Murphy, *et al.*, 2013, p. 73), however arrived at, whereas Coleman’s pragmatist approach sees principles as articulated by the practices of a community successfully resolving its problem situation, and, hence, ultimately defeasible in these terms.

embodiment? Support that can be adduced for substantial engagement includes the following points: the claims of frameworks to be built from the actually existing objective of financial reporting – for example paragraph 1.2 of IASBCF 2018, setting out the objective of general purpose financial reporting, is written in the present indicative (is) rather than employing modal verbs of expectation or obligation (such as should or ought);⁹ standard-setters' claims to employ frameworks to develop standards (for example, IASBCF 2018, paragraph SP1.1), which, barring a revolution that has not actually occurred, could hardly be achieved without frameworks engaging with existing practice, a point underlined by standard-setters asserting that frameworks are to be used to achieve evolutionary change, sometimes employing exactly that language, corporately, as in Financial Accounting Standards Board (1984, paragraph 2), or via their leaders (for example, Tweedie, 1996, p. 33);¹⁰ frameworks' drawing on thinking undertaken during standard-setting projects (see, for example, IASBCF 2018, paragraph BC0.14); scholarly analysis concluding that the contents of frameworks is closely aligned to practice, from early work on the FASB framework, such as Hines (1991), to recent commentary on the IASB project to revise its framework by Walton (2018);¹¹ the level of commitment of senior practitioners to debate on frameworks and their revision, as documented in relevant histories (such as Gore, 1992; Camfferman and Zeff, 2007, section 9.1; and Camfferman and Zeff, 2015, pp. 358-70); published analyses of submissions on framework revisions (such as Pro-active Accounting Activities in Europe, 2007; and European Financial Reporting Advisory Group, 2013) and academic studies (such as Burca, *et al.*, 2015; Erb and Pelger, 2015; Cordery and Sinclair, 2016; and Hoffman, 2016); and academic studies addressing the use of conceptual frameworks in standard-setting (admittedly, few in number), such as Kabir and Rahman (2018), which confirms that the IASB made use of its framework in revising its requirements on accounting for leases, albeit not as fully as it might have.

⁹ IASBCF 2018 formulates the objective as decision-usefulness, following the long-standing position of the FASB; earlier IASB versions also referred to stewardship. The tension between these formulations has generated controversy, including about whether they are significantly different and, if so, what the differences might be. Whittington (2008), for example, sees decision-usefulness as entailing current value measurement, though the authors of the FASB framework routinely denied this and no systemic imposition of current values has been attempted (Kirk, 1988; Storey and Storey, 1998). FASB staff analysis identified no significant differences (Zeff, 2013). There is insufficient space here for a wide-ranging discussion; what is important is that: (a) IASBCF 2018 espouses an objective held to reflect practice, so that, granted the absence of systematic deception, the framework is an attempt to engage with practice; (b) there is substantial, albeit not universal, support for the framework's position; and (c) the espousal implicates the framework in a wider structure which has the avowed intent of (in pragmatist terms) improving the resolution of accounting's problem situation and is thus subject to judgements of efficacy in those terms.

¹⁰ Standard-setters' use of conceptual frameworks to engineer evolutionary change is consistent with Wells' view of pragmatic reform, quoted earlier in this section.

¹¹ Scholars are often drawing the conclusions cited in this paragraph as criticisms of frameworks but, from the perspective of this paper, their conclusions have a positive implication.

It is possible to take other positions, for example that ‘the major rationale for undertaking conceptual frameworks was not functional or technical, but was a *strategic manoeuvre* for providing legitimacy to standard-setting boards and the accounting profession’ (Hines, 1989, p. 89, emphasis supplied), so that ‘wider external authority and validity ... are more important than ... specific technical enabling properties’ (Hopwood, 1988, p. 16, quoted by Hines, 1989, p. 86). On Hopwood’s position, any incoherence in the definition of an asset is of little significance if stakeholders are sufficiently impressed merely by there being one, so that the present paper is a form of quixotry. Such views are difficult to challenge because, as with any conspiracy theory, apparently contradictory evidence, such as that cited in the previous paragraph, can be held to constitute, rather, evidence of the low cunning and deviousness of the plotters (Aaronovitch, 2010). In the end, though, working – as I am – within the setting of philosophical pragmatism, the test of whether the level of engagement is sufficient for the purpose of this paper will be whether its approach succeeds, in however modest a way, in improving the functioning of the framework and accounting standard-setting in their operations to better resolve accounting’s problem situation; to repeat the point rehearsed earlier in this section, ‘a true belief is one that works’ (Westbrook, 2008, p. 189).

From a pragmatist philosophical position generally, and specifically from both a Deweyan and a Colemanian perspective, coherence is a crucial quality of claims to knowledge. It is important to emphasise that coherence refers here not just to the cogency of any particular logical formation but to wide-ranging and stable consistency with (all) other relevant claims to knowledge and to comportment with our beliefs about the world of experience (Walker, 2001, pp. 129-30). This world is built by the work of inquiry but from raw materials offered up by an environment which is far from infinitely malleable at our behest (Rutherford, 2017): there are the brute facts of the physical world – Searle’s (1995) paper and ink contrasted with the social fact of a dollar bill; Berger and Luckman’s (1967, p. 50) knife as an ‘object in the real world’ contrasted with a symbol of anger – and there are facts socially constructed outside any one domain and presented as brute to inquirers in that domain – for example the cash flows constructed socially by a commercial and economic environment which provide a, far from easily evaded, constraint with which accountants must work in their articulation of principles, including their individuation of assets and liabilities.

PRAGMATIST PRINCIPLES OF INDIVIDUATION

Pragmatist philosophy disavows many of the strict metaphysical dualisms embraced by analytic philosophy (Dewey, 1920; 1925; 1929) and pragmatists such as Boersema (2009, p. 177) include among these disavowals the

position that the ‘dichotomy between epistemic and metaphysical claims [as outlined in the introduction to this paper] is unwarranted’. Boersema (2009) draws his pragmatist analysis of individuation from an extensive survey of both classical and contemporary theorists and, particularly, from Goodman’s (1965, p. 82) argument that our partitioning of the world into reference classes is, at least in part, determined by our cognitive interests: ‘regularities are where you find them, and you can find them anywhere’. Boersema (2009, p. 170) goes on to ‘extrapolate from Goodman and suggest that his argument applies to the partitioning of the world in the sense of individuals as well’. It is important to emphasise that ‘the claim is not that we make up regularities with no constraints coming from “the world” [but that w]e find what we’re looking for, in part at least, only after deciding what it is we’re looking for. *It is both the world and our cognitive interests* that shape what regularities ... there are’ (Boersema, 2009, p. 172, emphasis supplied, note omitted).

Boersema (chapter 7) provides three arguments in support of his position and I will sketch them briefly. The first is derived from Goodman’s (1965) famous ‘grue’ paradox. Imagine two mutually exclusive characterisations of emeralds as (a) green and (b) grue, defined as green if examined before some future date, *t*, and blue if unexamined before *t*. Prior to *t*, both regularities appear valid but this does not seem to us to confirm the ‘gruesome’ hypothesis that emeralds examined for the first time in future will be grue and thus, after *t*, in effect, blue. However, in taking this view we can support our contention by relying on past regularities only having once decided on *which* regularities we will consult – we must *find* our regularities – and if this is true of kinds (diamonds) it is true of individuals (this diamond). Boersema also points to actually occurring partitionings, such as the taxonomic division of living things, which draw on bases selected from among many, by the human beings creating the division, according to their interests.

Boersema’s second argument, which he considers ‘perhaps more intuitive’ (p. 174) than his first, comes from considering the individuation of events. Events are individuated (Davidson, 1970), for example ‘the battle of Waterloo’ or ‘the election of 2019’, but they are clearly not found ‘out there’ in the world: did the battle start when Napoleon committed his troops, when the first shot was fired, when opposing armies engaged, and so on? The same point is made on a more technical level by Hanna (1969; 1978). Many experimental predictions make sense only if the experiment can be replicated; consider for example coin-tossing. But what is the generic experiment of which a single toss is an instance?

We decide what constitutes the generic experiment and that in turn determines what counts as an instance of it. To be able to replicate the experiment, we first need to know what it is we are attempting to replicate, and that depends on our cognitive interests and concerns. We decide what the parameters of the coin toss are (whether the toss begins, say, when the coin loses contact with another object – like my hand – or when it reaches the apex of its ascent, or whatever) (Boersema, 2009, pp. 175-76).

But there is no sharp distinction between ‘event-individuals’ and ‘thing-individuals’ (Boersema, 2009, p. 176), for example, storms appear to be events but are treated as things when described as, say, savage, or, indeed, named, and, as a consequence, it would seem that, if event-individuals are individuated in part on the basis of interests, so too are thing-individuals.

Boersema regards his third argument as even stronger. He says that ostension (that is, defining by pointing) is the most intuitive notion of individuation; ‘the trouble here, though, is that, as both Wittgenstein and Quine have shown, even ostension is interest-dependent’ (p. 177). He employs Quine’s example, perhaps even more famous than Goodman’s gruesomeness, of a non-English speaker in conversation with someone speaking only English and pointing to an object while uttering the word, ‘gavagai’. The English speaker might believe that his interlocutor is pointing at a rabbit so that the word can be translated as ‘rabbit’:

But things are not so obvious for Quine. It could be that ‘gavagai’ is more nearly translatable as ‘rabbithood’ or perhaps ‘undetached rabbit parts’ or even ‘rabbit stages.’ Says Quine:

The only difference between rabbits, undetached rabbit parts, and rabbit stages is in their individuation. If you take the total scattered portion of the spatiotemporal world that is made up of rabbits, and that which is made up of undetached rabbit parts, and that which is made up of rabbit stages, you come out with the same scattered portion of the world each of the three times. The only difference is in how you slice it. And how to slice it is what ostension or simple conditioning, however persistently repeated, cannot teach.

Where does this leave us? It leaves us with the conclusion that ostension, the paradigm of realist individuation, offers no principle of individuation after all; ostension works only after the world has been sliced up, and as Goodman and others have pointed out, how the world is sliced up is interest-dependent (just as, to repeat once again, it is also world-dependent) (Boersema, 2009, p. 178, quoting Quine, 1969, p. 32).

On the basis of these arguments, then, we conclude that our individuations ineluctably reflect (indeed, are a function of) our interests. Several points need to be emphasised. The first is that the interests concerned are, at a minimum, our cognitive interests, although, of course, other interests – moral, social, political, economic – may well also be implicated, directly or via our cognitive interests. The second is that there is no suggestion that interests are the sole determinants of our individuations; the regularities we discern are shaped by both the world – the brute matter referred to in the previous section – and our interests. As a (perhaps literally) concrete example of these ideas, consider the accommodation running, with no physical gaps, along the street opposite my study window. Supposing it to be terrace of Victorian cottages we would probably consider it to be ten buildings. If it is in fact a recently-constructed student block designed to look like a terrace of Victorian cottages, we would be more likely to consider it a single building. Our individuation reflects our desire to understand what is going on in the world, that is, our cognitive interests: are there separate owners? could we buy some accommodation without the rest? how much internal access is there? is maintenance undertaken separately? and so on. If other interests,

for example economic interests, come into play, these may affect individuations: for example, if small buildings are taxed at a disproportionately lower rate, the developer is likely to see individuation differently. Finally, like all knowledge in a world conceived under pragmatist philosophy, our partitionings reflect inescapably interpenetrating theory and values, including interests.

INDIVIDUATION OF ACCOUNTING OBJECTS IN IASBCF 2018

Individuation is discussed more extensively in IASBCF 2018 than it was in earlier versions of the framework, perhaps as a consequence of a degree of movement away from transaction-based measurement in accounting standards (Schipper, 2003, p. 69). Ironically, however, the discussion takes place after the main coverage of assets and liabilities, flows from a wider-ranging ‘individuation initiative’¹² by standard-setters, and is directed at a newly introduced or, at any rate, newly anatomised, concept, the unit of account.¹³

History of the Individuation Initiative

Possibly the earliest use of the new concept in the context of a conceptual framework project occurs in a 2005 Discussion Paper prepared for the IASB by Canadian Accounting Standards Board staff as a contribution to the IASB’s work on its framework and addressing measurement bases to be employed on initial recognition (International Accounting Standards Board, 2005). It argued that ‘the first step in measuring the market or entity-specific value of an asset or liability is to identify precisely the value-affecting properties of that asset or liability on the measurement date’ (paragraph 139) and that,

a vital pre-condition for determining the value-affecting properties of assets or liabilities is to define their units of account. Whether an asset or liability is defined as its lowest identifiable unit or on the basis of some grouping or aggregation with other assets or liabilities may alter value-affecting properties (paragraph 148).

This is an attempt to resolve the additivity problem in current cost accounting referred to earlier and, like that literature, it takes the individuation of a ‘lowest identifiable unit’ for granted; the last sentence also reflects a more general confusion about individuation of accounting objects: unitisation can be at the lowest level or as a grouping of *assets* but either way it defines *an* asset. For contractual assets and liabilities, the paper argued that units of

¹² I am indebted to an anonymous reviewer for this phrase.

¹³ This term itself is not new to accounting, of course, but was previously used to mean either the measurement unit in which financial statements are prepared or an artificial currency such as the European Currency Unit. Some idea of the speed with which interest in the new concept developed can be obtained from a Google search for the term combined with the names of the US or international standard-setters: hits now reach some 78,000, but Google dates only 22 of these to before the turn of the century and, of those, the 19 in English, at least, do not relate to the new meaning. Search conducted 6 May 2019. Terms searched for were ‘unit of account’ plus at least one of ‘IASC’, ‘IASB’ or ‘FASB’. The turn of the century is taken to be 1 January 2000.

account should be determined by the relevant accounting standard (paragraph 156), but for other assets and liabilities it proposed a general principle applying across all cases, albeit somewhat tentatively:

Pending further study beyond the scope of this preliminary investigation, this paper proposes that the appropriate unit of account for non-contractual assets on initial recognition is the lowest level of aggregation at which an identifiable asset is ready to contribute to the generation of future cash flows (paragraph 161).

The proposal was rejected outright in some quarters, the Austrian Financial Reporting and Auditing Committee condemning it as ‘vacuous’ (2006, p. 10), while other respondents, somewhat more politely, called for the further study mentioned in the Discussion Paper to be carried out (see, for example, Norwegian Accounting Standards Board, 2006). The entire paper proved controversial, being seen by many as part of an attempt by the IASB to promote fair value, and perhaps a particular version (exit value) favoured by the USA, and it was ‘quietly forgotten, after the Board had discussed it once’ (Camfferman and Zeff, 2015, p. 567). The Board chose instead to proceed by publishing an alternative Discussion Paper (Camfferman and Zeff, 2015, pp. 566-67) containing the entire text of US Financial Accounting Standard 157: Fair Value Measurements (Financial Accounting Standards Board, 2006, see paragraphs 6 and 27), which employs the concept of the unit of account but takes a much less innovative line, mandating that the requirements of existing standards be followed in all cases except one, a position in a single financial instrument in an active market, where it rules out adjusting for the size of the position relative to trading volume.

The concept is employed in a number of IASs issued prior to IASBCF 2018, though often only in the Basis for Conclusions and generally in a very shallow way, simply specifying the accounting object to be recognised or measured in operational terms, that is, referring to the operating characteristics of resources or claims to be reported, without any attempt to justify this specification in conceptual terms and thus, inevitably, without any scope for generalising an underlying functioning for the concept: see, for example, International Financial Reporting Standard (IFRS) 1: First-time Adoption of International Financial Reporting Standards (International Accounting Standards Board, 2003e, paragraphs BC47A and E); IAS12: Income Taxes (International Accounting Standards Board, 2010, paragraph BC18); IFRS9: Financial Instruments (International Accounting Standards Board, 2014a, paragraphs BC6.171 and 6.186); and IFRS15: Revenue from Contracts with Customers (International Accounting Standards Board, 2014b, paragraph BC318). This is rather like a football trainer telling players to form themselves into threes for a particular exercise: something has unquestionably been individuated but it is of only local and specific significance and lacks the conceptual depth and generalisability of individuations like a single player, team or squad. In some cases, the term is used merely to cross-refer to a specification given elsewhere, or to point out that there is no such specification, or to refer to approaches taken in

practice, again, leaving no scope for generalising an underlying functioning: see, for example, IAS32: Financial Instruments: Presentation (International Accounting Standards Board, 2003c, paragraphs BC105-111); IAS40: Investment Property (International Accounting Standards Board, 2003d, paragraph BC18); and IFRS11: Joint Arrangements (International Accounting Standards Board, 2011b, paragraphs BC35 and 40).

In a small number of cases, however, we can begin to discern the emergence of a richer conceptualisation, with an attempt to provide a rationale for the unit of account being specified in the way that it is. Such a discussion occurs in IAS19: Employee Benefits (International Accounting Standards Board, 2011a, paragraph BC21), where an alternative specification is rejected as impractical and failing to meet the objectives of the standard and in IFRS9 (International Accounting Standards Board, 2014a, paragraph BC4.89), where an alternative specification is rejected as less useful. The IASBCF 2018 carries this process of conceptual enrichment of the unit of account – the treatment of how the marshalling of rights and obligations should be conducted to form individuated accounting objects – to a clear, logical and convincing conclusion.

Individuation in the Framework

According to IASBCF 2018 (paragraph 4.48), '[t]he unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied'. This formal definition is immediately followed by the explanation that '[a] unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses' (paragraph 4.49).

It would be possible to read the opening words of the final sentence quoted in the previous paragraph, looked at alone, as applying to *kinds* of asset or liability and not individual objects – a unit of account is selected for a class of assets, and so on – but such a reading is inconsistent with other parts of the framework, for example the discussion of recognition in paragraphs 5.6-7 quoted earlier, which make it clear that recognition criteria are applied to individual objects. But this, clarified, understanding of the words in the first sentence of paragraph 4.49 leaves us in a state of confusion. If a unit of account is selected for an asset or liability this implies that that asset or liability has itself already been individuated, but we are not told how, or why a further individuation is necessary. Furthermore, we have already been told (in paragraph 4.11, discussed earlier) that when an object is being treated as a unit of account it is being treated as a single asset (there is no equivalent discussion of liabilities but presumably the same argument applies). So, what is the relationship between single assets and liabilities on the one hand and single units of account on the other?

The individuation of units of account is set out at some length and it is worth reproducing the text in full:

- A unit of account is selected to provide useful information, which implies that:
- (a) the information provided about the asset or liability and about any related income and expenses must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating each right or obligation as a separate unit of account if, for example, those rights and obligations:
 - (i) cannot be or are unlikely to be the subject of separate transactions;
 - (ii) cannot or are unlikely to expire in different patterns;
 - (iii) have similar economic characteristics and risks and hence are likely to have similar implications for the prospects for future net cash inflows to the entity or net cash outflows from the entity; or
 - (iv) are used together in the business activities conducted by an entity to produce cash flows and are measured by reference to estimates of their interdependent future cash flows.
 - (b) the information provided about the asset or liability and about any related income and expenses must faithfully represent the substance of the transaction or other event from which they have arisen. Therefore, it may be necessary to treat rights or obligations arising from different sources as a single unit of account, or to separate the rights or obligations arising from a single source [cross-reference omitted]. Equally, to provide a faithful representation of unrelated rights and obligations, it may be necessary to recognise and measure them separately.

Just as cost constrains other financial reporting decisions, it also constrains the selection of a unit of account. Hence, in selecting a unit of account, it is important to consider whether the benefits of the information provided to users of financial statements by selecting that unit of account are likely to justify the costs of providing and using that information. In general, the costs associated with recognising and measuring assets, liabilities, income and expenses increase as the size of the unit of account decreases. Hence, in general, rights or obligations arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs (paragraphs 4.51-52).

This discussion displays a number of important features. The length of the exposition facilitates our understanding of, and capacity to engage with, the framework's conceptualisation of what is clearly intended to be an important aspect of its structure. The conceptualisation, considered in its own terms, is, broadly speaking, careful, extensive, cogent and coherent: the overall objective in selecting a unit of account is the usefulness of the information provided; usefulness is achieved by relevance, representational faithfulness and an appropriate balance of costs and benefits; examples of the way in which these qualities can be enhanced by a suitable selection are provided (the cross-reference omitted above takes us to a discussion of the faithful representation of complex contractual arrangements in paragraph 4.62 and there is further discussion in paragraphs 4.53 and 4.55). The conceptualisation is also coherent with the remainder of the framework, which is expressed within a similar structure of relevance, representational faithfulness and a balance of costs and benefits. On the framework's own claim to reflect a conceptualisation of financial reporting as embodied in the functioning of the commercial and social world in actuality,¹⁴ we can follow Colemanian explanation by embodiment to view the unit of account, conceptualising, as it does, the work of practitioners *in action*, as coherent with practitioners'

¹⁴ See my defence of this claim in the section on a pragmatist approach to articulating accounting principles.

beliefs about their world of experience. The argument is further strengthened by the concept having emerged from standard-setters' grappling with actual problems in standard-setting. Finally, because the conceptualisation is based on actual choices of practitioners pursuing the objective of usefulness, it chimes with the pragmatist principles of individuation set out earlier.

Weaknesses in the Framework's Approach

At the same time, the framework's discussion displays some weakness. The confused relationship between units of account and assets and liabilities endures. The opening words, for example, continue the implication drawn out above that, once a unit of account is selected, it becomes the asset or liability: if a unit of account could be composed of multiple, say, assets, the wording would surely be, 'a unit of account is selected to provide useful information, which implies that ... the information provided about the assets ... must be relevant'. There is also some confusion about whether the objective is to meet a constraint, as implied by the opening words (to provide useful information, not the most useful information or information as useful as reasonably possible) and the requirement to be representationally faithful (not to maximise or improve representational faithfulness), or to achieve something more, as implied by the discussion of treatments that provide information that is more relevant (paragraph 4.51(a)) or more useful (paragraph 4.52).

A significant weakness arises from the framework's claim that, '[i]n some circumstances it may be appropriate to select one unit of account for recognition and a different unit of account for measurement' (paragraph 4.49). If, as I have argued is implied by the framework's general discussion, the unit of account *becomes* the asset or liability, we will be constructing a statement of financial position by recognising assets individuated in one way only to measure them individuated in a different way. This is not to question that it is sensible to discuss measurement issues, such as which property is to be measured or which measurement method is to be used, separately from recognition and independently of individuation; I could, say, individuate Minina (the cat featuring briefly in my introductory remarks) separately from deciding whether to weigh her or measure her height. But IASBCF 2018 feeds separate decisions about recognition and measurement back into individuation and the question is whether this yields meaningful results if we allow the process to have more than one outcome, even if it is technically possible to do so in accounting (rather in the same way that it is technically possible to treat accumulated depreciation as a liability).

I can weigh Minina the entire cat and I can individuate Minina's paws separately from the rest of Minina but you may feel the need to intervene if you see me attempting to weigh Minina's paws separately from the rest

of Minina. I could, of course, once only, but I don't. The *possibility* of weighing cat paws in principle makes it meaningful to think of recognising four paws, two ears, and so on, but to report only an aggregate weight for the list of parts *in toto*.¹⁵ But now consider a measurement that can, even in principle, only be obtained for Minina as a single object: maximum speed, perhaps. In what way is it meaningful to report a list of cat parts against a single measurement reported for the entire list? How is this a coherent view of Minina's objecthood or accomplishments? To take a more abstract example, suppose I am asked how my module on Advanced Financial Accounting breaks down into topics and how difficult it is. How meaningful is it to report that there are (I recognise) 14 topics and that the entire module is composed of four level 7 topics and three level 8 topics?

The case IASBCF 2018 offers of a difference in unitisation between recognition and measurement, arising at the level of principle (that is, not just as a practical expedient and yielding, at least in principle, the same answer), is estimating recoverable amount. Presumably what the authors had in mind is something like the provisions of IAS 36: Impairment of Assets (International Accounting Standards Board, 2013) concerning impairment losses needing to be measured for cash-generating units (CGUs). The framework's recognition criteria are explained as follows:

An asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in equity provides users of financial statements with information that is useful, ie with:

- (a) relevant information about the asset or liability and about any resulting income, expenses or changes in equity; and
- (b) a faithful representation of the asset or liability and of any resulting income, expenses or changes in equity (paragraph 5.7, cross-references omitted).

It is certainly possible to envisage individual operating items in such units satisfying *free-floating* recognition criteria as accounting objects – because they satisfy the definition of assets or liabilities and information about them would, in some general sense, be relevant and representationally faithful – rather as we can individuate cat parts. But the framework explicitly says that '[r]ecognition involves depicting the item in [the statement of financial position or the statement(s) of financial performance] – either alone or in aggregation with other items – in words and by a monetary amount, and including that amount in one or more totals in that statement' (paragraph 5.1). Thus recognition criteria do not float free but relate specifically to a financial statement. It is difficult to see how it can meaningfully be claimed that the operating items in a CGU written down to recoverable amount are objects being depicted in the financial statements by monetary amounts in aggregate when there are no monetary amounts that can be aggregated to the carrying amount for the CGU.

¹⁵ The framework (paragraph BC4.75) regards measurement at a different level of aggregation 'as a practical expedient' as one case of using different units of account for recognition and measurement but if the reason is purely practical and the result will be the same, no conceptual problem arises.

IAS 36 itself deals with this difficulty by pro-rating impairment losses over carrying amounts previously recognised (International Accounting Standards Board, 2013, paragraph 104) but pro-rating is not measurement and the process is only feasible because operating items have already been recognised individually, whereas conceptually the method should function *ab initio*. The problem seems to be acknowledged in the standard:

If it is not practicable to estimate the recoverable amount of each individual asset of a cash-generating unit, this Standard requires an *arbitrary* allocation of an impairment loss between the assets of that unit, other than goodwill, because all assets of a cash-generating unit work together (paragraph 106, emphasis added).

Given the nature of the recognition process and criteria in IASBCF 2018, and the relationship between recognition and measurement, there is surely a strong case that individuation of units of account separately for recognition and measurement results in a degree of incoherence.

CONCLUSION: A PRAGMATIST INDIVIDUATION OF ASSETS AND LIABILITIES

This paper has thus far pursued two related but separate strands: a conceptual analysis of the individuation of accounting objects in IASBCF 2018¹⁶ and an exposition of a pragmatist philosophy of individuation. It is now time to draw these two strands together.

IASBCF 2018 is the most recent fully revised version of a conceptual framework to be produced by a widely recognised accounting standard-setter. Assets and liabilities are fundamental to the framework, yet the framework's individuation of assets and liabilities is radically incoherent because it aligns them to fugitive, evanescent, actually inescapably indistinct, phenomena, namely single, *individual*, economic rights and obligations, distinguished from all other rights or obligations, which are indistinct because of their inevitable predisposition to agglomeration. The framework attempts to retreat from this alignment, proposing that it applies only 'in principle', but this retreat only leads to inconsistency and confusion.

Alongside its discussion of assets and liabilities, IASBCF 2018 offers us an individuation of another accounting object, of much more recent vintage, namely the unit of account. This individuation, looked at in the round, functions well; it is coherent within itself, in its relationship to the remainder of the framework, and in its relationship to experience in the accounting world; as it happens, it is also conceived in terms that correspond to the pragmatist philosophy of individuation offered in this paper. However, in IASBCF 2018, the unit of account

¹⁶ But, as explained in the introduction, not a sociology of accounting individuation. The development of such a sociology would be a considerable challenge, partly because, for most of its history, the problem of individuation remained largely latent, and partly because principles of individuation are a conceptual tool which, in any particular context, can be deployed to lead to a variety of different outcomes, so that individuation in itself is not particularly revealing in political economic terms.

is peripheral to the main structure and, what is worse, confused in its relationship to assets and liabilities; on the most reasonable interpretation of the text, the unit of account, once adopted, actually *becomes* an asset or liability, somehow replacing the assets or liabilities contemplated by practitioners or standard-setters in their work of selecting the unit of account in the first place and thus necessarily existing before the selection is made.

Rather than settling for a view of assets and liabilities as elusive, ever mutable, will o' the wisps, made solid by accounting standard-setters and practitioners marshalling them into units of account, I propose that the solution is one further, simple, extension in the argumentation: to reconceptualise assets and liabilities by acknowledging that the accounting work that goes into selecting an object for recognition and measurement in financial statements, currently depicted as directed at the unit of account, actually constitutes what determines what is to count as an individual asset or liability. This final move confers on the conceptualisation of assets and liabilities the advantages I have already identified for the unit of account: it provides a clear, logical and convincing explanation of what it is that makes something a single asset or liability, one accounting object and one distinct from all others; this explanation is coherent in its own terms and with the rest of the conceptual framework. In addition, the approach avoids the awkwardness of having fuller and clearer principles for identifying units of account than for identifying assets and liabilities, when the latter are much more fundamental to the endeavour of financial reporting, and it eliminates the difficult conceptual relationship between units of account and assets and liabilities. Further, it improves the parsimony of the framework by eliminating the, only recently established, concept of the unit of account. These reasons make the approach an improvement in the conceptual framework considered in its own terms.

But we can go much further. On the claims of the framework to engage with accounting practice, and because my reconceptualisation is derived from the framework in the spirit of Wellsian pragmatist cyclical re-evaluation of norms and practices,¹⁷ and repurposes an idea emerging from accounting practice, the new conceptualisation is likely to be in comportment with the world of accounting practitioners' experience. For that reason, and from its employment of the coherent and rigorously worked-out notion of usefulness in the remainder of the framework, the approach chimes with a well-established philosophical position, philosophical pragmatism, which provides a secure metaphysical underpinning for the framework.¹⁸

¹⁷ It might be thought that my argument is self-contradictory in that I am taking a conceptual framework as meshing with contemporary experience and therefore as a source for explanation by embodiment while, at the same time, recommending its revision. However, viewing it as an example of Wellsian cyclical re-evaluation rescues it from this charge.

¹⁸ There are parallels between the argument of this paper and Hayoun's (2017; 2018) suggestion, made in the course of his proposed accounting semiology, that separability has emerged at the core of asset recognition and that this is best interpreted as semiological articulation. Separability and individuation are clearly related but they

It may seem that having fundamental terms in the conceptual framework defined on the basis of selections made in action by practitioners yields shaky conceptualisation but pragmatist principles of individuation show us that this is actually an inevitable consequence of the nature of the world of accounting.

Taking the approach proposed here, assets and liabilities can be defined directly by reference to rights and obligations, eliminating the need to introduce and define the concept of economic resources, another improvement in parsimony. Defining assets and liabilities in this way acknowledges that it is accounting standard-setters and practitioners who select, and thus socially construct, the combinations of rights and obligations that are to constitute assets and liabilities – it acknowledges this but, as I have just pointed out, it does not bring it about.

Pragmatist principles of individuation acknowledge that, in their task of constructing particular assets and liabilities, accounting standard-setters and practitioners may be responding not only (and necessarily) to their cognitive interests but also to other interests including their personal economic interests. Thus, practitioners individuate inventory according to their need to understand the workings of their world – for wine shippers, a case is a single item, for a retailer each bottle may be the item and a publican may see a bottle as so many glassfuls – but may also be influenced by economic interests, for example, earnings management considerations, in determining what counts as a single contract, a single good or service, or a single bundle of goods or services under IFRS 15 (International Accounting Standards Board, 2014b). Again, the ontology reveals this but does not bring it about and it is important to appreciate that, while the rights and obligations that constitute assets and liabilities are also socially constructed, they are not by any means always constructed by the community of accounting practitioners – rather, they are delivered to them as brute by a wider social community. Thus, standard-setters, acting generally, and practitioners, acting locally, may decide to select rights to future use of a leased machine as constituting an asset of the entity (when they could have made other selections, for example, only the current period's rights) but those rights will typically be brute to the standard-setters and practitioners concerned as a consequence of constructions made by the legal system generally and the contract applying in the particular case. In addition, practitioners applying their judgement to concrete instances of rights and obligations will, of course, be working within a structure set by accounting theory, the relevant conceptual framework and individual

are not the same: semiology 'has purposefully refrained from metaphysical aspirations ... and remained in the more restricted realm of social sign systems' (Hayoun, 2017, p. 129) and, partly as a consequence, 'there is more than one way of articulating the firm to distinct assets' (p. 113), whereas principles of individuation are concerned with how those distinct assets actually come to be distinguished and pragmatist principles of individuation accept that pertinency and efficacy in addressing problem situations offer a standard by which to judge individuations. This richer modelling seems likely to offer more scope for engaging with the endeavour of conceptualising financial reporting.

standards. The acknowledgement that accountants' interests are implicated in their construction of assets and liabilities offers further opportunity for regulators explicitly to address the importance of minimising conflicts and exercising professional judgement objectively.

Under my proposal, an asset might be defined as follows:

An asset is a group of present rights that have the potential to produce economic benefits, controlled by the entity as a result of past events, selected so that its recognition [*either or or* and]¹⁹ measurement will provide useful information about that asset and related income and expenses.

This formulation is derived from IASBCF 2018's definition (paragraphs 4.3-4) and its description of the unit of account (paragraphs 4.48-49), omitting the intermediate stage of defining an economic resource (thus, as I have already pointed out, making for greater parsimony), since accountants construct assets, not economic resources.

Some minor points about the drafting are worth making. I have used the term 'group' because it is used in the framework (for example, at paragraph 4.48) but, on my argument that rights are fundamentally unindividuable, and even on the IASB's concession that they often do not get individuated in practice, a collective noun that does not imply individual rights as a starting point might be preferable: perhaps cluster, mass, agglomeration, accumulation, pool, parcel or formation. I have retained the term 'selected' but it might be more in keeping with the process to use phrasing like 'distinguished from all other groups'. I have retained the modest objective employed in IASBCF 2018 of passing the constraint of providing useful information, but it might be better to demand something stronger such as providing information that is as useful as can reasonably be achieved under the circumstances.

What is not a minor point is that I have, thus far, left open the possibility that different groups might be employed for recognition and measurement. I have argued that this introduces a degree of inconsistency, and thus incoherence, even when applied to the unit of account but it would be a serious flaw applied in formally individuating assets and liabilities. The implications at a conceptual level become apparent if we think about something as routine as a provision for losses on inventory measured for a group of 'similar or related items', as permitted by IAS 2 (International Accounting Standards Board, 2003a, paragraph 29). By recognising the items separately, but measuring them as a group, we are 'capturing' (IASBCF 2018, paragraph 5.1) in a financial statement a series of accounting objects whose individual monetary amounts do not bear any meaningful or systematic relationship to the totals on that statement (see the IASBCF 2018 definition of recognition given above) unless we also recognise the provision separately, which we can't because it is not a liability, while at the same

¹⁹ Depending on whether different selections are allowed for recognition and measurement.

time *not* recognising the one accounting object that does bear a meaningful and systematic relationship to the totals on that statement, the group of items. It seems to me to produce a much more cogent and coherent position to accept that we are actually both recognising and measuring an asset individuated in the same way, namely the group of similar or related items, and bite the bullet of conceding that in conceptual terms, we cannot claim assethood for individual stock items that we cannot measure.²⁰

The principles of individuation proposed here would have some practical consequences for the presentation of certain operating items in the financial statements; for example, there would be an argument for presenting impaired CGUs as accounting objects in themselves rather than arbitrarily spreading the impairment charge across previously recognised accounting objects. There would also be an opportunity for more rigorous thinking about topics such as the treatment of redundant and ex post wasteful expenditure (as discussed at the beginning of the paper). The presentation of most items would not change – for example, if a group of similar or related items of inventory against which a provision for losses had been made happens to require separate disclosure it will be presented as now.

Much the most important impact of the proposals in this paper, however, will occur at the conceptual level. First, and regardless of the force of the pragmatist arguments advanced in the paper, the reconceptualisation of assets and liabilities would improve the cogency and coherence of financial reporting's conceptual framework in its own terms. Secondly, if the framework and practitioners' experience are engaged with each other to the degree I argue for – if the modelling 'works' in the pragmatist sense – the reconceptualisation could improve the functionality of the framework in supporting the evolution of financial reporting in a Wellsian cycle of re-evaluation. Thirdly, the pragmatist arguments behind the proposals provide a secure philosophical underpinning for the conceptual framework project generally, useful in defending the project and encouraging academic involvement.

²⁰ No doubt practitioners (and teachers) will want to go on talking about an asset and a liability informally in cases which are, strictly considered, components or aggregates of assets or liabilities and there should be no difficulty about this, rather as physicists use weight and mass interchangeably where the difference carries no significance.

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