

## What are accounts for? Have accountants lost the plot?

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According to the [International Accounting Standards Board](#) the main purpose for the accounts that are produced using its International Financial Reporting Standard is to provide potential investors, lenders and other creditors of a company with the information they need to make decisions about buying, selling or holding equity or debt instruments issued by it or on providing or settling loans or other forms of credit with it.

It's an extraordinarily narrow view of accounting and accountability, made all the narrower by the fact that they say that they are aware that "other parties, including prudential and market regulators, may find general purpose financial reports useful. However, the Board considered that the objectives of general purpose financial reporting and the objectives of financial regulation may not be consistent. Hence, regulators are not considered a primary user and general purpose financial reports are not primarily directed to regulators or other parties."

As a result the IASB notes "that general purpose financial reports cannot provide all the information that users may need to make economic decisions. They will need to consider pertinent information from other sources as well."

The trouble is, what is that other data? With regard to most companies the information provided by accounts is far too limited. Specific market data is not available. Country based data is missing in all too many cases. The accounts of subsidiary companies can be and are in many cases prepared using different accounting rules from parent companies meaning that views are hard to reconcile. If enough subsidiaries are used the position becomes opaque, maybe deliberately. Adding an offshore dimension creates a black hole that is almost certainly planned in many cases and which means, because of the combination of offshore opacity and the removal of all intra-group transactions from view in consolidated accounts, that large areas of a company's activities may be completely hidden from view. To put it bluntly, the other data that the IASB suggests should be consulted is not available, and they must know that.

Unsurprisingly in that case people do not trust the data they are given by companies. And why should they when the companies themselves and the accountants who act for

them, and coincidentally have a major influence on setting the rules for corporate reporting, deliberately exclude most users of accounts from consideration when deciding what information the users of that data do or don't need?

As long ago as 1975 the UK's Accounting Standards Steering Committee, a body that can be seen as a precursor of the current International Accounting Standards Board published a [seminal document entitled the Corporate Report](#). That report said that published accounts should enable a user to appraise information on:

1. *The performance of the entity;*
2. Its effectiveness in achieving stated objectives;
3. Evaluating management performance, including on employment, investment and profit distribution;
4. The company's directors;
5. *The economic stability of the entity;*
6. *The liquidity of the entity;*
7. *Assessing the capacity of the entity to make future reallocations of its resources for either economic or social purposes or both;*
8. *Estimating the future prospects of the entity;*
9. *Assessing the performance of individual companies within a group;*
10. *Evaluating the economic function and performance of the entity in relation to society and the national interest, and the social costs and benefits attributable to the entity;*
11. *The compliance of the entity with taxation regulations, company law, contractual and other legal obligations and requirements (particularly when independently identified);*
12. *The entity's business and products;*
13. Comparative performance of the entity;
14. The value of the user's own or other user's present or prospective interests in or claims on the entity;
15. *Ascertaining the ownership and control of the entity.*

It can, quite reasonably be argued that very little has changed since 1975 in this

regard.

It is important to note that there is good evidence for suggesting that those with interest in financial statements have almost certainly not changed much since 1975. The Corporate Report identified these as:

- \* The equity investor group (shareholders)
- \* The loan creditor group (banks and bondholders)
- \* The analyst-adviser group who advise the above groups
- \* Employees
- \* The business contact group
- \* The government
- \* The public.

Since 1975 the focus of reporting has been narrowed: at most the first three groups are now served by accounting data, and then only partially. And in the meantime of the 15 potential uses data to meet many is not provided, by choice. Although country-by-country reporting had not been thought of in 1975 it can also quite reasonably be argued that country-by-country reporting would add, in some cases considerably, to the understanding of those issues italicised. and yet the accounting profession still opposes it.

What can reasonably be argued is that in 1975 accountancy had a better understanding of its public duty than now, and still believed it had a duty to meet that responsibility.

It's very hard to argue that the modern set of financial statements issued by most multinational corporations go anywhere near meeting user need.

No wonder the public are cynical. They'd be all the more so if they realised that this failure is by design.

If, as [\*John Gapper argues in the FT this morning\*](#) companies are to adapt to new rules that must meet public expectation then so must accounting be reformed. But it has a long way to go, and the pre-requisite is to understand that the primary purpose of corporate reporting is to meet the public need for data that is required as a result of the grant of the privilege of limited liability to a company at potential cost to society at large. The duty to report is not a choice, it is an obligation. Accountants have forgotten that and in the process have spectacularly missed the point of their work. It's time for them to go back to basics and fulfil their public obligation.