

# **Comments to the Consultation Paper on 2017-2021 IAESB's Strategy and Priorities**

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March 8, 2016

Referring to some articles of IFAC as follows:

1. Help the IASB Shape the Future of Financial Reporting, written by Hans Hoogervorst, Chairman, International Accounting Standards Board;
2. The Future of Corporate Reporting - Creating the Dynamics for Change, written by Petr Kriz, President, FEE and Hilde Blomme, Deputy CEO, FEE;
3. The Power of One, written by Anton Colella, Chief Executive, Institute of Chartered Accountants of Scotland,

and FEE Cogito Paper-The Future of Corporate Reporting, I would like to propose some comments regarding the Consultation Paper on 2017-2021 IAESB Strategy and Priorities.

The basic thinking of my comments is my paper submitted in the year of 1979 as an attachment of my answer one of the examination of accounting and my thesis in the year of 1982 to get the graduate of Bachelor of Economics Faculty major in Accounting of University of Indonesia.

The motto of my study of accounting in the University of Indonesia is 'Seek the truth' that in line with the motto "Quaere Verum"—that is, "seek the truth" as shown in the article of "The Power One" 1).

## **Mathematical Approach**

I absolutely think that the basic of education use the same motto. As we know we apply the accounting since the 14<sup>th</sup> century by introduction of basic financial reports – Balance Sheet and Income Statement.

But, unfortunately we did not care to the statement of Professor of Accounting George J. Staubus written in his book as follows:

"The failure of the sum to represent a measure of the value of the whole firm (additivity failure) is a limitation of the accounting that we do not know how to overcome." 2)

We as professional accountants did not care to this statement and its reality till today? Why it has happened?

In my opinion, we as accountants just applying the accounting practices. We do not care to the motto "Quaere Verum"—that is, "seek the truth". Or maybe someone (Professor of Accounting Yuji Ijiri) has tried to get the truth in accounting, but unfortunately he has not reached the truth yet.

In the mathematic there is assumption of the addition process that: "The sum of two numbers is a unique numbers" and "If equal number be added to equal number the sums are equal number" 2) For example: 5 plus 3 its sum is 8 . In the Mathematic, the operation of addition needs the uniqueness of property 3) as Keedy said "the essential property of operation is the uniqueness" 4).

Balance Sheet presents in the measurement assets side the sum of many types of assets for example: Cash, Inventory, Building, Land and so on. As we understand that for Cash item its property of valuation is face value, for Inventory we know many types of valuation methods i.e. LIFO, FIFO and so on, for Building item its property valuation is acquisition or historical cost minus accumulated depreciation.

Balance Sheet only accumulates the total value of money based on the respective property of each item of assets and liabilities cannot be proofed its mathematical truth.

Accountants have to realize this additivity failure of Balance Sheet and Income Statement that cannot be proofed their mathematical truth. In facing this condition, we have to have a solution that can proof its mathematical truth in line with the motto "Quaere Verum"—that is, "seek the truth", even Staubus said "The failure of the sum to represent a measure of the value of the whole firm (additivity failure) is a limitation of the accounting that we do not know how to overcome."

It is simple if we want to overcome from the additivity failure in accounting, we only measure item that its value is objective forever and represent the real world phenomena and apply the principle of going concern. What are they? They are cash

and liabilities and we do not need Balance Sheet and Income Statement anymore. The other assets are recording as they are and with a simple way. With technology we can create many sub-ledgers of other assets based on public interest need and still show its money value of each transaction if any, but there are no accumulated money value shown in the sub-ledger.

There is no subjectivity in the measurement of cash and liabilities (loan, account payable). All people will know the value of cash only by watching the nominal value shown in it both the paper money and the coin. For the loan, people only see the figure shown in the loan agreement paper especially the loan that applies zero interest rate and for Account payable only see the figure of unpaid invoices.

### **The Basic Need of All Stakeholders Approach**

Here I start with the basic need of all stakeholders both of business entity either non business entity but they are the object of tax levied. We know that all stakeholders of the entity need money from it, employees need wages or salaries, suppliers need payments, creditors need repayment of the loan, government need taxes, investors need cash dividend and so on.

### **The Solution for the Future Shape of Financial Report**

Based on two above approaches, here I want to propose a solution regarding the limitation of the accounting measurement by issuing a New Global Concept of Financial Report. I called it with 'Cash of The Investor Statement' with the format as shown at bellow:

QH Corp.  
Cash of the Investor Statement  
For the Year of 2050

Cash Inflow	W	XXX.XXX.XXX.00	
Cash Outflow		<u>XXX.XXX.XXX.00</u>	-/-
Cash Balance		XXX.XXX.XXX.00	
Liabilities		<u>XXX.XXX.XXX.00</u>	-/-
Cash Balance after Liabilities		XXX.XXX.XXX.00	
Minimum Income of Investor/Owner		<u>XXX.XXX.XXX.00</u>	-/-
Tax Basis		XXX.XXX.XXX.00	
Corporate Tax		<u>XXX.XXX.XXX.00</u>	-/-
Cash of the Investor/Owner		XXX.XXX.XXX.00	

Cash Inflow show all cash received by entity for example from investor or owner, selling the good and services, borrowing from creditor, selling the assets of entity, donation from the third parties and so on;

Cash Outflow show the all payments for example payment of salaries to employees, to management, purchase the goods and services, purchasing of anti pollution equipment, paying training expenses, the repayment or installing of loans, payment of corporate tax and dividend.

Cash balance represents the excess of cash inflow from the cash outflow.

Liabilities including loan, account payable etc.

Cash Balance after Liabilities shows the deduction liabilities from the cash balance.

Minimum Income of Investor/Owner is the value stated by the Government represent the minimum cash for the consumption of a family of the investor or owner for individual entity for living during a year multiplied by the total investor/owner.

Tax Basis is the deduction minimum income of investor/owner from Cash Balance after Liabilities. It represents the amount as a basis of corporate Tax levy of the entity.

Corporate Taxes is a tax stated by the Government, there is no Corporate Taxes if Tax Basis is zero or a negative balance.

Cash of the Investor/Owner shows the total cash available for cash dividend, it reflected the success of the management in performing their tasks to optimal the wealth of the investor/owner

The letter of 'w' represents the world currency, in the global economy the economic transactions use the currency accepted in all countries in the world.

As long as there is not exists the world currency yet, we can use multiple currencies it shown at below:

**QH Corp.**  
**Cash of the Investor Statement**  
**For the Year of 2050**

	USD	Euro	Yen	
Cash Inflow	XXX.XXX.00	XXX.00	X.XXX.00	
Cash Outflow	<u>XXX.XXX.00</u>	<u>          </u>	<u>X.XXX.00</u>	-/-
Cash Balance	XXX.XXX.00	XXX.00	X.XXX.00	
Liabilities	<u>XXX.XXX.00</u>	<u>          </u>	<u>X.XXX.00</u>	-/-
Cash Balance after Liabilities	XXX.XXX.00	XXX.00	X.XXX.00	
Minimum Income of Investor/Owner	<u>XXX.XXX.00</u>	<u>XXX.00</u>	<u>X.XXX.00</u>	-/-
Tax Basis	XXX.XXX.00	XXX.00	X.XXX.00	
Corporate Tax	<u>XXX.XXX.00</u>	<u>XXX.00</u>	<u>          </u>	-/-
Cash of the Investor/Owner	XXX.XXX.00	XXX.00	X.XXX.00	

### **The Measurement of Management Performance**

In this new concept, we do not use Earning per Share (EPS) to measure the success of management performance anymore. We will use Cash of the Investor per Share (CIPS) to measure it. If Board of Directors rely on the Loan both in term of Short Term either Long Term to fund the operation of the entity and the Cash Balance after Liabilities is negative balance, it means investors pay the creditor/s and they will not received the cash dividend. If Government making a decision the rate of interest is

zero, the creditor has no incentive to lend their money and it is better if they invest their money in the business entity instead of as an Idle Money.

The reason why the liabilities are deducted from Cash Balance because it will represents the ability of an entity can produce cash from the operation or from the investor.

This new concept of Financial Report has a correlation with the change a position of Audit Firm in the Economy, the Fiscal policy both domestic either international, the enhancement of internal audit function. We need more time and chance to make explanation of them in other time.

## CONCLUSION

The new concept of the Global Financial Report “Cash of the Investor/Owner Statement” and its sub-ledgers can be used as a replacement of the Current Financial Reports – Balance Sheet, Income Statement, The Changes of Equity Statement and Statement of Cash Flow.

The new concept has to be studied and disseminated via Education Program, if it is needed more time to understand it, IAESB can invite me to discuss deeply.

I introduce regarding my-self, my name is Muhammad Sardjono Hadidjaja, a graduate of Economics Faculty major in Accounting of University of Indonesia. I leave in Jakarta, Indonesia.

I was an internal auditor of a state shipping company for 5 years, in this period I also gave a lecture of accounting in some colleges and after resigned from this company I worked as management accountant in the Foreign Oil Company of Indonesia for 22 years and I retired 5 years ago.

Now I am focusing to my idea regarding the Accounting and its problems, it was developed from the year of 1979.

1) Anton Colella, *The Power of One*, <http://www.ifac.org/global-knowledge-gateway>, January 26, 2016

2) George J. Staubus, *Making Accounting Decision*. Scholar Book Company, Houston, Texas, 1977, p 169

3) Harry Waldo Kuhn and James Hanry Weaver, *Elementary College Algebra*, The McMillan Co., New York, 1935, page 2

4) Ibid

5) Petr Kriz and Hilde Blomme, *The Future of Corporate Reporting—Creating the Dynamics for Change*,  
<http://www.ifac.org/global-knowledge-gateway>, February 23, 2016