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MEMORIAL

The editors are reintroducing Memorials (also known as Intellectual Obituaries) into *Accounting Horizons*. The first Memorial reintroduced was in the September 2010 issue, recognizing the intellectual contributions of Philip W. Bell. Prior to this Memorial, a previous Memorial was published in the March 1987 issue, recognizing the intellectual contributions of Edward Stamp. The intent of these Memorials is to honor recently deceased academics who made significant and lasting intellectual contributions to the field of accounting and also to keep their contributions alive. Professor Stephen Zeff, of Rice University, raised and championed this idea through the Executive Committee and Publications Committee of the American Accounting Association. Professor Zeff, in conjunction with the co-editors of *Accounting Horizons*, identifies the individuals to be honored. He selects the authors to prepare the Memorials and edits the submitted manuscripts.

Robert T. Sprouse and Fundamental Concepts of Financial Accounting

Robert J. Swieringa

SYNOPSIS: This paper reviews the life and contributions of the late Robert T. Sprouse to the conceptual development of financial accounting. He was an influential accounting academic and standard setter who is perhaps best known for his joint monograph with Maurice Moonitz, *A Tentative Set of Broad Accounting Principles for Business Enterprises*, which provided a springboard for the development and use of fundamental concepts that are expressed or implied in the FASB conceptual framework, accounting standards, and related publications and have changed the way we analyze and resolve financial accounting and reporting issues.

INTRODUCTION

The late Robert Thomas Sprouse was an influential accounting academic and standard setter who devoted his professional life to fashioning the objectives of financial reporting and the fundamental concepts that are used to analyze and resolve financial accounting and reporting

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issues. His legacy: he trained many of us to think in terms of fundamental concepts of financial accounting and changed the way we think about financial accounting and reporting issues.

THE FORMATIVE YEARS

Sprouse was born on January 11, 1922 in rural San Diego County in California, the fourth of five children who lived with their mother after his parents separated. These were difficult times as the family lived on the earnings of two brothers who caddied on weekends and their mother who sorted lemons. Sprouse graduated from high school in 1938 and jobs were very scarce. A brother helped him become the only member of his family to attend college by financing the costs he incurred for books and fees at San Diego State College. Sprouse performed well in courses he liked, but poorly in courses he found dull and boring. After two years, he left college when he ended up on academic probation and his brother withdrew financial support. Sprouse worked in a grocery store bagging groceries and then in a nursery and flower shop. He was drafted into the U.S. Army in 1942. Even though he had never held a gun before basic training, he became a crack marksman. He was promoted to Corporal and became part of the permanent cadre that trained new draftees. He was promoted to Sergeant, applied for officer candidate school, and in 1945 was commissioned as a Second Lieutenant in the Infantry. He was sent to Germany and had a variety of assignments before becoming a Trial Judge Advocate of the First Division's General Court, which had broad authority to impose forfeitures of pay, confinement, dishonorable discharge, and other penalties provided for in the Articles of War, including the death penalty. Some of the General Court Martial cases involved desertion, larceny, assault, rape, and even murder.

As a Trial Judge Advocate, Sprouse learned to think like a lawyer—to accept ambiguity, objectively argue both sides of an issue, and question everything. Sprouse learned to be logical, disciplined, and effective in getting his points across in an argument. His involvement in cases being tried also had other benefits. A new court reporter, Frances Hartley, arrived to watch the proceedings in a case that Sprouse was trying and became one of the three or four reporters assigned to report other cases that he was trying over the next several months. Robert Sprouse and Frances Hartley were married in Germany in October 1947.

Significant developments in financial reporting unfolded during Sprouse's formative years in California and in the U.S. Army. The use of current or appraisal values and upward revaluations for assets were common in the years before the Great Depression. Prior to 1938, banking organizations were required for supervisory purposes to use market values for portfolios of investment securities (SEC 2008). However, in the aftermath of the Great Depression there was a general move away from the use of current or appraisal values and toward the use of historical cost accounting for investments and long-lived assets. This move was strongly supported by the Securities and Exchange Commission (SEC) and by the Federal Trade Commission (FTC), which had uncovered widespread use of asset write-ups that the FTC viewed as arbitrary.[1] This move also was supported by others, including the executive committee of the American Accounting Association (AAA), which strongly endorsed the use of original cost for physical assets (AAA 1936), and Paton and Littleton (1940) provided a conceptual rationale for the use of historical cost accounting.[2] By 1940, the practice of upward revaluations for assets had virtually disappeared from financial reporting in the U.S.

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1 Zeff (2007) describes how Robert E. Healy, one of the five founding SEC Commissioners in 1934, played an important role in the SEC's policy to insist upon historical cost accounting. As Chief Counsel to the FTC, Healy directed the FTC's six-year, congressionally mandated investigation into market manipulations by public holding companies, with heavy emphasis on their accounting practices during the 1920s. Healy became livid about asset value write-ups that public holding companies had been booking to create income or to relieve income of important charges, often by their creative use of capital surplus accounts to manage reported income. Healy's strong convictions and convincing arguments persuaded other members of the SEC and its staff to initially discourage asset write-ups and then to actively ban them.

2 Zeff (1999) provides a description of these and other efforts to provide authoritative guidance to the SEC.

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In 1938, the American Institute of Accountants empowered the Committee on Accounting Procedure (CAP) to provide the SEC with "substantial authoritative support" for proper accounting practices. The CAP dealt with a variety of timely accounting problems, but its case-by-case approach failed to develop a structured body of generally accepted accounting principles (GAAP). Moreover, the CAP and the SEC's accounting staff disagreed on a number of controversial accounting issues, including deferred tax accounting, historical cost versus current values, the propriety of general price level adjustments, and the treatment of unusual items in the profit and loss statement. Pressure began to build for developing a better approach for establishing GAAP that included a stronger research component to support the CAP's deliberations and to persuade the SEC of the merit of new approaches (Zeff 1999).

Sprouse returned to the U.S. in January 1949 and was assigned as a Trial Judge Advocate in General Courts Martial at Fort Dix, New Jersey. He was released from his U.S. Army commitment in May 1949 so that he could attend law school. He returned to San Diego State College under the GI Bill, but found that the summer course offerings were very limited. He took an introductory accounting course from Professor Ruel Lund of the University of Minnesota who had exchanged summer teaching assignments with Professor Charles W. Lamden of San Diego State. Sprouse took several of Lamden's accounting courses and learned that Lund had arranged for the University of Minnesota to offer him a teaching assistantship if he entered its M.B.A. program. Sprouse earned his B.A. degree with a major in commerce (accounting) from San Diego State College in 1951 and entered the M.B.A. program at Minnesota. After his first quarter in the M.B.A. program, Sprouse was given an instructorship, and Professor Carl L. Nelson and others persuaded him to pursue a doctoral degree and a career in teaching instead of accounting practice. Nelson was an imposing figure with high expectations for his students. He made accounting exciting and provocative by encouraging students to critique accounting pronouncements, explore alternatives, and search for the economic substance in transactions. He urged his students to question everything (Bloom 2009). Sprouse earned an M.B.A. with a major in accounting from Minnesota in 1952 and the Ph.D. was conferred in 1956, with a minor in law.

THE UNIVERSITY YEARS

Sprouse returned to California to join the accounting faculty at the University of California–Berkeley in 1955 and became a tenured associate professor in 1961. His early research focused on issues related to his Ph.D. thesis, "The Effect of the Concept of the Corporation on Accounting," which was published (Sprouse 1976). Reflecting his interest in law and accounting, his initial publications focused on the concept of the corporation in accounting analyses (Sprouse 1957), legal concepts of the corporation (Sprouse 1958), accounting for treasury stock transactions (Sprouse 1959), and accounting principles and corporation statutes (Sprouse 1960).

During Sprouse's early years at Berkeley, the accounting profession continued to explore ways to develop a better approach for establishing GAAP. In 1958, a Special Committee on Research Program proposed the establishment of an Accounting Principles Board (APB) to replace the CAP and an accounting research division at the American Institute of Certified Public Accountants (AICPA) to support the APB.[3] The goal of the research program was to base APB pronouncements on something more than existing practice and the views and experiences of members of the CAP and their associates. The first priority of the research division was to commission studies on accounting postulates and broad accounting principles and then to develop rules or other guides for applying principles in specific situations. The Special Committee and others believed that the results of these studies would provide a foundation for future pronouncements of the APB.

[3] Report to Council of the Special Committee on Research Program (1958).

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In 1960, Maurice Moonitz at the University of California, Berkeley was appointed the APB's director of accounting research, undertook the first research project on accounting postulates, and in 1961 published Accounting Research Study No. 1 (ARS No. 1), *The Basic Postulates of Accounting*, which described three tiers of accounting postulates about the environment, the field of accounting, and the imperatives (Moonitz 1961). ARS No. 1 was not highly controversial because many viewed the postulates as very abstract and general and Moonitz did not take positions on current accounting issues.

Accounting Research Study No. 3

Moonitz collaborated with Sprouse, his colleague, on the research study about broad accounting principles and in 1962 they published Accounting Research Study No. 3 (ARS No. 3), *A Tentative Set of Broad Accounting Principles for Business Enterprises* (Sprouse and Moonitz 1962). ARS No. 3 articulated a set of broad principles:

- That profit is attributable to the whole process of business activity, that changes in resources should be classified among the amounts attributable to changes in the dollar, replacement costs, sale or other transfer, or recognition of net realizable value, and accretion or discovery of previously unknown natural resources.
- That all assets of an enterprise should be recorded in the accounts and reported in financial statements. That measuring (pricing, valuing) an asset is a matter of measuring future services and involves a determination if future services exist, an estimate of the quantity of services, and a choice of a method or formula based on past, current, or future exchange prices.
- That all liabilities of the enterprise should be recorded in the accounts and reported in financial statements. That liabilities that call for settlement in cash should be measured by the present (discounted) value of the future payments or the equivalent and liabilities that call for settlement in goods or services (other than cash) should be measured by their agreed selling price.
- That in a corporation, owners' equity should be classified into invested capital and retained earnings (earned surplus). Invested capital should be classified according to source, and retained earnings should include the cumulative amount of net profits and net losses, less dividend declarations, and less amounts transferred to invested capital.
- That a statement of the results of operations should reveal the components of profit (e.g., revenues, expenses, gains, and losses) in sufficient detail to permit comparisons and interpretations.

Sprouse and Moonitz based these broad principles on definitions of assets, liabilities, owners' equities, and the components of profit—revenues, expenses, gains, and losses, and they provided an extensive analysis and discussion of the measurement of assets and liabilities. They argued for less reliance on the realization concept (see Sprouse 1965) and for the expanded use of current values. They advocated the use of current replacement cost for inventories and plant and equipment, the use of discounted present values for receivables and payables to be settled in cash, and the reporting of holding gains or losses from revaluing inventories in income.

ARS No. 3 was a lightning rod that many viewed as highly controversial and objectionable even before it was published. Nine of the 12 members of the combined project advisory committees on the two research studies appended comments to ARS No. 3, only one of which was positive. The APB met to discuss the study before it was published and issued a one-page *Statement by the Accounting Principles Board* that was inserted into each copy of ARS No. 3:

> The board believes … that while these studies are a valuable contribution to accounting thinking, they are too radically different from present generally accepted accounting principles for acceptance at this time. (APB 1962a)

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Debates about ARS No. 3 were often heated and sometimes personal.[4] Sprouse and Moonitz defended their positions in a wide variety of forums and articles. For example, in defending the recommendations for significant changes (e.g., the use of replacement costs and accounting for general-price-level changes), Sprouse (1964a) observed that general dissatisfaction with the state of existing practice had been the primary reason for launching the new research program. Yet he noted the irony of instances in which ARS No. 3 supported and rationalized prevailing practices for accounting for monetary assets and liabilities and for revenue recognition that were still characterized by some as radical departures from those practices.

The APB's rejection of the postulates and principles studies was a watershed event. Some members of the APB and other leaders of the accounting profession quickly became disillusioned with a postulates and principles approach. They were more interested in justifying the status quo than developing the basis for a fundamental change in accounting or improving the information content of financial statements. The SEC had brought about the move to historical cost accounting and reinforced that accounting by tolerating few, if any, departures (Zeff 1999). These efforts reinforced a tightly woven historical cost accounting model and mindset. Yet, a practical consequence of rejecting the postulates and principles studies was that the APB adopted the case-by-case approach used by the CAP.[5]

Another watershed event was the publication in 1966 of a monograph by a committee of the AAA entitled *A Statement of Basic Accounting Theory* (ASOBAT), which focused on the decision usefulness of financial statements (AAA 1966). Debates about accounting concepts and principles often focused on the virtues of different asset valuation models—e.g., historical cost, replacement cost, current market price, etc. ASOBAT changed the focus to decision usefulness. The committee defined accounting as "the process of identifying, measuring, and communicating economic information to permit informed judgments and decisions by users of the information." The committee identified and elaborated on basic standards for accounting information—relevance, verifiability, freedom from bias, and quantifiability, and judged a number of accounting problem areas against those standards.

Sprouse moved from Berkeley to Harvard Business School in 1962 to work with Robert N. Anthony on a project about accounting for long-lived assets (Sprouse 1964b). While at Harvard, Sprouse continued to write about broad principles of accounting (Sprouse 1963a, 1963b, 1964a, 1965). In 1965, Sprouse returned to California as professor of accounting at Stanford Business School, where he reconnected with Robert K. Jaedicke, a colleague from his Ph.D. days at Minnesota (Jaedicke and Sprouse 1965; Sprouse 1966a) and with Charles T. Horngren, a visiting professor on leave from the University of Chicago.

Accounting for What-You-May-Call-Its

In the ensuing years, Sprouse continued to develop and share his views about fundamental concepts of financial accounting. In what many consider to be his most influential article, "Accounting for What-You-May-Call-Its," Sprouse (1966b) focused on how the fundamental account-

[4] Zeff (1982) provides a useful and convenient compilation of articles, editorials, and book reviews by Cannon, Queenan, Heaton, Kohler, Moonitz, Chambers, Vatter, Littleton, and Mattessich.

[5] The APB continued to struggle with a normative stance toward the development of basic concepts and issued a mostly descriptive Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises* (APB 1970).

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ing equation of assets equal liabilities plus owners' equity had essentially become assets equal liabilities plus what-you-may-call-its plus owners' equity under several pronouncements of the CAP and APB.[6]

He observed that comingling what-you-may-call-its with debit balances (deferred debits) among assets and credit balances (deferred credits) among liabilities placed special demands on analysts to determine the nature of these accounts, often with less information than was available to the accountant. Some deferred credits are liabilities—obligations to convey assets or perform services—e.g., payments received in advance by magazine publishers or insurance companies or payments to finance construction or other major needs. But, some deferred credits are not liabilities—the what-you-may-call-its.[7]

Sprouse focused on three examples: "book value in excess of cost," so-called "negative goodwill," which was treated as a deferred credit under ARB 51 (CAP 1959); "gain on sale and leaseback," which was treated as a "contra asset account without any asset account to be a contra to under APB Opinion No. 5" (APB 1964b); and "deferred investment credits," which he described as "amounts that did not have to be paid in the past and will not have to be paid in the future—a strange animal indeed to be classified among liabilities" (APB 1962b, 1964a).

Sprouse's analysis reflected his basic approach to financial reporting issues. For each example of a what-you-may-call-it, he used survey data from the AICPA's annual *Accounting Trends & Techniques* to provide information about prevailing practices, explained existing accounting pronouncements and requirements, and used information from company financial reports to explore the conceptual and practical effects of those requirements. He then used the concepts of assets, liabilities, and owners' equity to ask questions about the underlying nature of the deferred credits. In particular, he used the concept of liabilities from Sprouse and Moonitz (1962) to distinguish between deferred credits as liabilities and what-you-may-call-its. He concluded with these words:

> It has long been held that "an important objective of income presentation should be the avoidance of any practice that leads to income equalization." Yet, the conclusion is difficult to avoid that "income equalization" is the primary motive underlying the current practice of amortizing book value in excess of cost into income over a period of years, amortizing gains on sales and leasebacks into income over a period of years, and amortizing investment credits into income over a period of years. (Sprouse 1966b, 52)

> The emergence of the three kinds of what-you-may-call-its discussed here underscores the crucial need for the kind of fundamental analytical framework that the Accounting Principles Board was created to provide and utilize. In the absence of established fundamentals such as the nature of assets, liabilities, and owners' equity—fundamentals that hopefully would lead logically and consistently to sound solutions to accounting's many problems, one is forced to predict that, as new accounting problems arise, the number of what-you-may-call-its will tend to increase. (Sprouse 1966b, 53)

Fundamental Concepts of Financial Accounting

Sprouse provided a more complete preview of coming attractions in Sprouse (1971). The context for this preview was a description and assessment of three views of the balance sheet: a "sheet of balances" view—a summary of debt and credit accounting balances that remain after the determination of income; a "static funds statement" view—a summary of transactions that result in

[6] Sprouse (1966b) continues to be controversial because it is viewed as having shaped the thinking of U.S. and international standard-setters (see Basu and Waymire 2010).

[7] The definitions of assets and liabilities in APB Statement No. 4 included deferred charges that are not resources and deferred credits that are not obligations but are recognized in conformity with generally accepted accounting principles (APB 1970).

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changes in working capital during a period of time; and a “financial position” view—a summary of assets, liabilities, and owners’ equity. He used accounting for income taxes and investment credits under APB Opinion No. 11 (APB 1967) to compare the three views.

Sprouse’s description of the financial position view provided a broad outline of his thinking about a framework for analyzing and resolving financial accounting and reporting issues. That view required the identification of the reporting entity and an accounting for its assets and liabilities. He then focused on the concepts of assets, liabilities, owners’ equity or net assets, and income as defined in Sprouse and Moonitz (1962). The measurement of income depends on the measurement of net assets, which, in turn, depends on the measurement of assets and liabilities. Sprouse believed that even though the financial position view did not eliminate all of the problems and resolve all of the controversies surrounding the analysis of financial accounting and reporting issues, it sharply limited the number of alternatives and provided a disciplined approach that focused on fundamental concepts in resolving those issues.[8]

The Classroom

In addition to his writings and presentations, Sprouse brought his ideas about financial accounting to life in the classroom. He was an outstanding educator.[9] At Stanford, Sprouse taught a popular elective corporate financial reporting course that encouraged M.B.A. students to develop their own frameworks for analyzing and resolving accounting issues. Each session focused on important recognition and measurement issues in accounting and discussion focused on case problems drawn from actual corporate financial statements. About midway through the course students submitted working drafts of their personal frameworks, which they then applied to the issues discussed in class sessions. Sprouse critically reviewed and extensively commented on these drafts. The students used the final versions of their personal frameworks in analyzing and resolving the case problems on the four-hour final exam. The grade on the final exam was based on how well and how consistently students used their frameworks to analyze and resolve the accounting issues in the case problems on the exam.

Sprouse used the Socratic Method, a teaching style in which a professor calls on students at random—a practice sometimes referred to as “cold calling.” Sprouse would call on a student, ask further questions, play devil’s advocate, and confront the student with hypothetical scenarios. Sprouse devoted many hours to developing case problem materials from corporate financial statements and preparing for class so that he could be highly effective in teaching.

Sprouse also was a well-liked and excellent instructor in executive development programs at Stanford and elsewhere and became the director of the Stanford Executive Program. He was actively engaged in consulting engagements, expert testimony, and other litigation support. He was an active member of the AAA and became increasingly active in its leadership as vice-president, president-elect, and then president in 1972–73. In 1986–87, he returned to the AAA executive committee as director of publications.

THE FASB YEARS

In 1971, the AICPA formed two special committees to study the way forward for setting GAAP and the objectives of financial accounting and reporting. The first was the Study Group on

8 Rappaport (1971), in providing discussion comments on Sprouse (1971), described Sprouse’s approach as reflecting a structural or designer’s view of the accounting system, not a user’s or consumer’s view. Rappaport noted that Sprouse accepted the primacy of the income statement in terms of user interest, but viewed the concepts of assets and liabilities as more fundamental than the concept of income since the latter depends on the former. Rappaport drew from ASOBAT in describing a user approach, which he preferred because he believed that it may have the greatest hope for progress in accounting theory.

9 Sprouse was a recipient of many teaching awards, including the Salgo-Noren Award for Distinguished Teaching at the Graduate School of Business, Stanford University in 1969.

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the Establishment of Accounting Principles (the Wheat Committee), which proposed a full-time independent body known as the Financial Accounting Standards Board (FASB) under a new Financial Accounting Foundation (Wheat Report 1972). The AICPA approved the Wheat Committee's proposals and the FASB was created in 1972 to succeed the APB on July 1, 1973.

The second special committee was the Study Group on the Objectives of Financial Statements (the Trueblood Committee), which was charged with proposing the fundamental objectives of financial statements to guide the improvement of financial reporting (Trueblood Report 1973). The Trueblood Committee both embraced and extended ASOBAT's decision usefulness approach and focus on future cash flows:

> An objective of financial statements is to provide information useful to investors and creditors for predicting, comparing, and evaluating potential cash flows to them in terms of amount, timing, and related uncertainty. (Trueblood Report 1973, 20)

The Trueblood Committee believed that financial statements should "serve primarily those users who have limited authority, ability, or resources to obtain information and who rely on financial statements as their principal source of information about an enterprise's economic activity." The Committee focused primarily on investors and creditors, but it also included managers and employees. The Committee enumerated several qualitative characteristics of reporting and concluded that "the objectives of financial statements cannot be best served by the exclusive use of a single valuation basis." The Committee reinforced the shift in focus from stewardship reporting to providing information useful for decision makers.

In 1972, Sprouse resigned from his position as a professor of accounting at Stanford to become one of the seven founding board members of the FASB. This was indeed a risky choice. He gave up a secure tenured position at Stanford for a term appointment with a new organization with a highly uncertain future. "The members of the new Board were well aware that their fledgling organization must try to hold together a divided constituency whose principal segments argued strenuously for interests and objectives that most often were in conflict" (Van Riper 1994, 10). Sprouse was intimately familiar with the vagaries of standard setting in accounting. He had closely followed and critically analyzed the pronouncements of the CAP and APB for many years and his Stanford colleague Charles Horngren served as a member of the APB from 1967–1973. Conversations during lunch and other daily gatherings in the Stanford faculty lounge often were about accounting issues and pronouncements.

FASB Conceptual Framework

A project for "broad qualitative standards for financial reporting" was one of the seven projects formally placed on the FASB's initial technical agenda in April 1973. The Trueblood report's user-oriented, decision usefulness approach became a cornerstone for what became the FASB Conceptual Framework project. Sprouse (1988d) believed that the FASB felt obligated to carry on the work of the Trueblood Committee and that the FASB required a framework of concepts to serve as a common basis for analyzing issues and arriving at consistent, defensible resolutions in addressing the other six technical projects on the initial agenda: research and development costs, contingencies, leases, foreign currency translation, business segments, and materiality. He also believed that the FASB had a comparative advantage over the CAP and APB in having a group of seven individuals with stable membership, working together on a full-time basis with the support of a competent professional staff. Yet the new FASB members and others were mindful of the widespread criticism of the CAP and APB for their failure to develop a set of pervasive concepts and recognized that it was unreasonable to expect to develop a complete conceptual framework and adopt it all at one time by a single board action.

A task force led by a FASB board member was appointed for each project, except for the project for "broad qualitative standards for financial reporting," which was under the direction of

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the FASB chairman, Marshall S. Armstrong, and was expected to actively engage all of the FASB board members. The FASB Conceptual Framework project had five major components, two of which reflected the contributions of the Trueblood report—objectives of financial reporting and qualitative characteristics of financial information. Concept Statement Nos. 1 and 2 on objectives and qualitative characteristics initially were controversial, but as time passed fewer found fault with the underlying notions.

The other three components focused on elements of financial statements and their recognition, measurement, and presentation. An intensive debate ensued over what elements and definitions should have conceptual primacy. Proponents of a "revenue and expense view" focused on definitions of revenues and expenses and viewed performance of the reporting entity in terms of its reported income, which resulted from the proper matching of revenues and expenses in the period. The residuals of the matching process would be included among assets and liabilities. Proponents of an "asset and liability view" focused on the reporting entity's economic resources and obligations to transfer those resources. Reported income would result from changes in those resources and obligations. As suggested by his earlier writings, Sprouse was one of the intellectual leaders of an asset and liability view. After extensive and heated debate, the FASB decided to embrace an asset and liability view essentially because of the perceived conceptual primacy of assets and liabilities and the perceived discipline of the resulting definitions, which imposed limits or restraints on what would be included in assets and liabilities and therefore reported income (Storey and Storey 1998; Johnson 2004).

The FASB Conceptual Framework includes the objectives of financial reporting and the concepts that flow from those objectives. The objectives focus broadly on information that is useful in investment and credit decisions and specifically on the primary interests of investors and creditors in assessing the performance and cash flow prospects of the reporting entity based on information about its economic resources, claims to those resources, and changes in them. The elements of financial statements are defined in terms of the reporting entity's economic resources, claims to those resources, and changes in them.

Concept Statement Nos. 1 (FASB 1978), 2 (FASB 1980a), 3 (FASB 1980c), and 6 (FASB 1985a) are frequently cited in the FASB's own documents and in position papers and comment letters submitted to the FASB by others. Accounting standard setters around the world—e.g., Australia, Canada, New Zealand, the United Kingdom, and the International Accounting Standards Board (IASB)—have developed conceptual frameworks that are based on those Concept Statements. Sprouse (1988d) believed that those Concept Statements were so fundamental that they were not likely to be affected significantly by new developments, were sound, and would endure. Sprouse believed that it was not realistic to expect to achieve a consensus about the resolution of specific technical accounting issues, but he hoped that if a consensus could be achieved about the objectives of financial statements, the qualitative characteristics of financial information, the elements of financial statements, criteria for determining the proper time for giving accounting recognition to those elements, and their measurement and presentation, then accounting standards could be evaluated on the basis of their consistency with that framework.

The development of Concepts Statement No. 5 (FASB 1984) on recognition and measurement proved to be much more difficult than expected. The initial focus of the recognition project was on the timing of the initial recognition of assets and liabilities and on the related timing of the recognition of revenues and expenses. But, as the FASB became more deeply involved in the project, it concluded that recognition and measurement were so closely related that they had to be dealt with simultaneously. Sprouse (1988d) did not believe that combining recognition and measurement was a wise decision, even though he recognized that they were interrelated for some issues. He noted that most projects addressed by the FASB focused on recognition and believed that significant progress was more likely to be made if the FASB focused on recognition sepa-

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rately. He believed that the chances of reaching agreement on a definitive statement on measurement were slim at best because measurement was a highly emotional issue and was considered by many to be the most important issue.

Concept Statement No. 5 (FASB 1984) provides virtually no guidance about measurement. It acknowledges that items currently reported in financial statements are measured by different attributes, the use of different attributes is expected to continue, and information based on current prices should be recognized if it is sufficiently relevant and reliable to justify the costs involved and more relevant than alternative information. In other words, for the foreseeable future, measurement issues would be decided on a case-by-case basis.

Sprouse (1980) used the law of contracts as an analogy for the role of a conceptual framework for analyzing and resolving financial accounting and reporting issues. Assume that there is no established concept of contract and that a court with seven judges is attempting to determine whether the negotiations between two parties resulted in a contract. Each judge has a personal notion of what it takes for a contract to exist, has strong convictions about the merits of that notion, and would use that personal notion to analyze the relationship between the two parties. However, given an established legal concept of contract, each judge would use that concept to determine whether the parties had capacity to contract, whether there was mutual assent, whether there was consideration, and whether the subject matter was valid. The analysis would still require a great deal of professional judgment, but an established concept of contract would provide a common frame of reference that would enhance the quality (justice and equity), predictability, and confidence in the professional judgment of judges and individual lawyers about the legal enforceability of agreements. When plaintiffs or defendants lose a case involving damages for violations of contracts, they may be critical of the court's decision but they are not likely to attack the legal concept of contract or the legal process that led to the decision. By extension, Sprouse believed that the FASB would be successful if there was a consensus that its mission was important and desirable, the process used to carry out that mission was fair and effective, and the conceptual framework that provided the basis for its decisions was sound and operative.

Similar to the legal concept of contract, the elements of financial statements in Concepts Statement No. 6 (FASB 1985a) provide a common frame of reference and guidance on the questions used in standard setting and resolving technical issues and the order in which questions are asked (Storey and Storey 1998; Johnson 2004): What is the asset? What is the liability? Did the asset or liability or its value change? Did it increase or decrease? Why did its value change? Did the change result from an investment by owners, a distribution to owners, or comprehensive income? Was the source of comprehensive income what we call revenue, expense, gain, or loss? These elements and questions have been internalized by past and current FASB board and staff members and others, some of whom have become technical experts in a wide range of professional, financial, industrial, not-for-profit, regulatory, and academic organizations. These elements and questions have dramatically changed the analyses, diagnostics, and heuristics used in fashioning accounting standards and resolving technical issues and may represent one of the FASB's most important accomplishments in establishing and improving standards of financial accounting and reporting.

FASB Accounting Standards

Sprouse actively participated in the development of the first 88 FASB accounting standards. He was the project leader for the project that resulted in Statement of Financial Accounting Standards (SFAS) No. 2, *Accounting for Research and Development Costs* (FASB 1973). The basis for conclusions of SFAS No. 2 relied heavily on the definitions and criteria provided in APB Statement No. 4 (APB 1970). In particular, the FASB concluded that research and development costs encompassed by the statement should be charged to expense when incurred because there

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was a high degree of uncertainty about the future benefits of individual research and development projects and a lack of a causal relationship between expenditures and future revenues.

Sprouse rarely dissented, suggesting that he often played an important role as a member of the majority that fashioned and supported a given standard. Yet when he dissented it was usually over fundamental concepts or principles. For example, in dissenting to SFAS No. 43, *Accounting for Compensated Absences* (FASB 1980b), Sprouse and Chairman Donald J. Kirk distinguished between benefits that have vesting provisions and benefits that do not have vesting provisions. They argued that for benefits that have vesting provisions, the employees need not be absent to be compensated. Service already rendered is necessarily the past transaction or event that is referred to in the definition of liabilities as creating an obligation. They believed that an employer had a recognizable liability for vacation pay that was based on service already rendered (past presences). However, they did not believe that an employer had a recognizable liability for sick pay that was contingent on a specific event outside the control of the employer or employee (future absences).

Sprouse expressed a similar view in dissenting from SFAS No. 87, *Employers' Accounting for Pensions* (FASB 1985b). In his view, an employer cannot have a present obligation for the pension benefit related to salary increases that are contingent on future inflation, promotion, or improved productivity. The issue again was the past transaction or event that is referred to in the definition of liabilities as creating an obligation. He believed that anticipating the effects of those future events on pension cost in accounting for the current period was no more appropriate than anticipating future higher wages and salaries in accounting in the current period.

THE POST-FASB YEARS

Sprouse left the FASB in December 1985 after 12 years and nine months as a board member, including 11 years as vice chairman of the board. He moved to Chula Vista, California and was a Distinguished Accounting Research Professor at San Diego State University from 1987 to 1990. He wrote nine commentaries on financial reporting that appeared in *Accounting Horizons* in 1987–1989. The commentaries focused on economic consequences (Sprouse 1987a, 1988a), the perceived need for financial accounting standards (Sprouse 1987b), financial instruments and financial institutions (Sprouse 1987c), the SEC-FASB partnership (Sprouse 1987d), Congressional involvement and intervention (Sprouse 1988b, 1988c), the conceptual framework (Sprouse 1988d), and accounting and accounting education (Sprouse 1989).

Sprouse received several accountant of the year, distinguished professor, and outstanding alumnus awards. He was inducted into the Accounting Hall of Fame at The Ohio State University in 1994 and paid public tribute to the teachers, colleagues, and friends who played a special role in his personal life and in his academic and professional career. He resumed his active engagement in expert testimony and litigation support activities. He became an owner and breeder of thoroughbred racehorses and an avid runner, swimmer, and gardener.

Sprouse died on December 23, 2007 at Scripps Mercy Hospital in Chula Vista, from prostate cancer complications. He was 85. He was survived by his widow, Frances H. Sprouse, and their daughter Margaret C. Sprouse and son Joseph H. Sprouse.

TRAINING OUR MINDS

Robert T. Sprouse lived an emblematic American success story. He overcame his early years of poverty in rural Southern California to attain academic and professional prominence in accounting. As a Trial Judge Advocate in Germany, Sprouse learned to think like a lawyer—to accept ambiguity, objectively argue both sides of an issue, and question everything. He benefited from fortuitous circumstances that led him to pursue undergraduate studies in accounting at San Diego State College under the influence of Charles Lamden, graduate studies in accounting at the University of Minnesota under the influence of Carl Nelson, and then began his academic career with

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Maurice Moonitz who became his mentor and collaborator on an important monograph that proposed broad accounting principles. That monograph became the springboard for a quest for the development and use of fundamental concepts in analyzing and resolving financial accounting and reporting issues. As Sprouse moved to Harvard Business School and then to Stanford Business School he continued to advocate the use of broad principles of accounting based on fundamental concepts of financial accounting in his writings and presentations and in the classroom. In 1972, he became a founding member of the FASB, which provided new opportunities to pursue his quest to change the way we think about financial accounting and reporting issues. That change was reflected not only in the FASB conceptual framework, accounting standards, and related pronouncements and publications, but also in the ways in which current and past FASB board and staff members and others around the world analyze and resolve financial accounting and reporting issues. He played an important role in changing the questions that are asked in fashioning accounting standards and in resolving technical issues. That is his legacy: Robert T. Sprouse trained our minds to think in terms of fundamental concepts of financial accounting and changed the way we think about financial accounting and reporting issues.

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