Discussion of the Role of Accounting in Financial Disclosure

Shyam Sunder

Professor Birnberg deals with several important issues in his paper and I shall confine my comments to three of these. The first is the question of what, if any, is the usefulness of the distinction between retrospective and prospective accounting. Second, I shall discuss the effect of the use of master-servant, superior-subordinate, or principal-agent framework on the analysis of accounting issues. I think it is more useful to analyze accounting problems by emphasizing the mutuality and simultaneity of these relationships and by de-emphasizing the asymmetry. One result of an increasing recognition of this nature of the accounting problems is that the accounting systems can be seen as the result of equilibrium among diverse sets of interests. I shall discuss this movement in accounting by relating to the notions such as information inductance and the economic consequences of accounting.