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Risk in Accounting

Risk and uncertainty are inherent in the environment and functions of accounting. Accounting reports, systems, norms, and rules help people decide, and also determine how they decide in such an environment. Diverse normative theories and descriptions of coping with risk and uncertainty yield different implications for accounting. Chambers was an articulate, forceful, and celebrated proponent of market values, while Ijiri did the same for historical costs. Elements of accounting theory that diverge in their emphases on historical cost versus market values can be linked to the divergence in the theories of risk and decision making. This largely unrecognized link between the conflicting accounting theories and their respective implicit assumptions about risky decisions may help us reconcile, understand, and progress beyond the accounting debates of the past century.

Key words: Accounting; Chambers; Financial reporting; Information for decisions; Risk and uncertainty.

Much of what was said critically years ago, and earlier and since by many others, can still be said today.

Chambers (1969, p. viii)

Does it matter if, and how, the accounts of an organization are prepared? Perhaps the fact of their preparation by some reasonably consistent publicly known method is all that matters. Or perhaps the details of how they are prepared, including the methods of measurement and the extent of disclosure, are also important because sharing the method used to prepare them is insufficient. These questions have been the subject of extensive debate in accounting over the past century. Even within the confines of an investors' perspective (setting others' interests aside for the moment without doubting their importance), the answers remain unclear.

Single-person businesses benefit from accounting, at least as an aid to memory (Sunder 1997, 1999). In organizations, with the presence of interacting egos, one might argue that any choice of accounting induces counterbalancing adjustments by the individuals to protect their respective interests. However, such adjustments do not necessarily lead to the final outcomes being independent of accounting. On the contrary, accounting determines the nature of interactions and the efficiency of outcomes (Basu *et al.*, 2009a, b).

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