Limits to Information

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Recent accounting literature is marked by broad acceptance of the view that financial accounting is designed to provide information to various decision-makers. Consequently, comparative analyses of financial accounting systems are focused on their properties such as fineness, cost and usefulness to the decision-makers. Subject to the consideration of the cost of operating it, the notion that the financial accounting system can provide unlimited amounts of information has gone largely unchallenged. The purpose of this essay is to argue that there are three forces which place strict limits on the amount of information that can be effectively communicated through the financial statements. These limits are imposed by the logical, economic, and legal environment of financial accounting. I shall also argue that an understanding and recognition of these limits may help the Financial Accounting Standards Board to distinguish aspects of financial accounting where issuance of additional rules and standards may already be an ineffective means of increasing the information content of financial statements.