

3.2. Exercises on the scope and limitations of financial accounting

1.

Identify at least three valuable resources whose existence cannot be recognized in the context of financial accounting, and explain why.

Response

Resources cannot be recognized in the context of financial accounting unless they have exchange value – that is, unless they can be bought or sold. Thus for example:

- a) the experience and expertise of a firm's staff cannot normally be recognized in a firm's accounts, despite its obvious value to the firm. This is not, as often suggested, because the value cannot be known, but because the experience and expertise does not belong to the firm and cannot be bought or sold. (If the staff were held as slaves and could be sold, or employed under restrictive contracts like footballers, their value could be determined quite easily and recognized in the accounts, as indeed it is with respect to footballers.)
- b) the right to vote in a general election is generally valuable but cannot be recognized in financial accounts unless the votes are bought or sold (which is usually illegal).
- c) fresh air is valuable but access to fresh air cannot be bought or sold, and therefore it can have no value in accounting.

Many other examples are possible.

2.

Explain how carbon trading brings environmental effects within the ambit of financial accounting.

Response

As currently advanced, schemes for carbon trading seem to involve each participating firm being given the right to emit a quantity of carbon dioxide. Firms which emit less than their permissible quantity have the right to sell the surplus to other firms which may wish to emit more than their permissible quantity.

Under such schemes, the right to emit carbon dioxide therefore becomes a tradeable commodity. It can be bought and sold, and therefore has exchange value, which can be recognized in financial accounts.