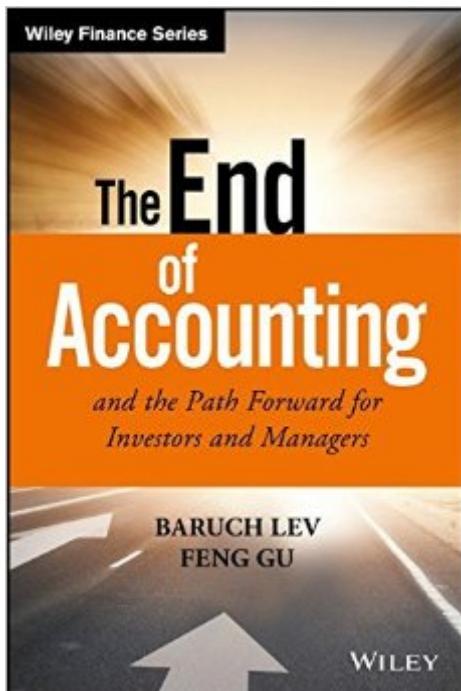


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# The End Of Accounting And The Path Forward For Investors And Managers (Wiley Finance)



## Synopsis

An innovative new valuation framework with truly useful economic indicators The End of Accounting and the Path Forward for Investors and Managers shows how the ubiquitous financial reports have become useless in capital market decisions and lays out an actionable alternative. Based on a comprehensive, large-sample empirical analysis, this book reports financial documents' continuous deterioration in relevance to investors' decisions. An enlightening discussion details the reasons why accounting is losing relevance in today's market, backed by numerous examples with real-world impact. Beyond simply identifying the problem, this report offers a solutionâ "the Value Creation Reportâ "and demonstrates its utility in key industries. New indicators focus on strategy and execution to identify and evaluate a company's true value-creating resources for a more up-to-date approach to critical investment decision-making. While entire industries have come to rely on financial reports for vital information, these documents are flawed and insufficient when it comes to the way investors and lenders work in the current economic climate. This book demonstrates an alternative, giving you a new framework for more informed decision making. Discover a new, comprehensive system of economic indicators Focus on strategic, value-creating resources in company valuation Learn how traditional financial documents are quickly losing their utility Find a path forward with actionable, up-to-date information Major corporate decisions, such as restructuring and M&A, are predicated on financial indicators of profitability and asset/liabilities values. These documents move mountains, so what happens if they're based on faulty indicators that fail to show the true value of the company? The End of Accounting and the Path Forward for Investors and Managers shows you the reality and offers a new blueprint for more accurate valuation.

## Book Information

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## Customer Reviews

Accounting Professors Baruch Lev and Feng Gu have written a very important book on the need to update century old accounting practices. They open their book by presenting the financial statements for U.S. Steel in 1902 and 2012. There point is that not much has changed from an accounting standpoint, but from an economic standpoint U.S. Steel's profitability dramatically declined over the century. Lev and Gu describe in great detail the accounting and finance literature demonstrating the 50 year decline in the importance of traditional accounting data's influence on stock prices. Although stock prices do move in the very short run in response to earnings announcements, over the intermediate term they respond far more to non-accounting data. According to Lev and Gu the problem with current financial accounting is that it ignores intangible assets that are developed internally, for example research and development, trademarks and investments designed to improve organizational efficiency. All of those expenses are expensed. The authors would capitalize them, which is exactly what occurs when those assets are acquired in a merger or by individual purchase. Second accounting today is more about estimates rather than hard facts. These estimates would include the provision for bad debts, pension expense, stock option expense, and even revenue recognition. Finally accounting does not take into account such unrecorded events as the receipt of a patent, a new drug approval, the signing of an important contract, and the rise or fall in the number of subscribers. It is this last category that seems to matter the most to investors. For example yesterday Netflix reported better than expected earnings, but far fewer than expected new subscribers.

The traditional accounting model is over 500 years old, and it is in bad shape. Baruch Lev and Feng Gu want to change this sorry state. Their seminal book, *The End of Accounting*, is divided into four parts: 1) Relevance Lost; 2) Why Is the Relevance Lost?; 3) So, What's to Be Done?; and 4) Implementation. The authors have empirically studied accounting reports for the past 50 years, documenting a fast and continuous deterioration in the usefulness and relevance of financial information to investors decisions. One compelling statistic: "Today's financial reports provide a trifling 5-6 percent of the information relevant to, and used by, investors." We've asked GAAP to perform functions it's not competent to perform, such as marking things to market value

(Warren Buffett says, “This is not marked-to-market, rather marked-to-myth.”). The authors have a sensible and practical proposal: “The Strategic Resources and Consequences Report,” which they suggest should be a voluntary disclosure by public companies primarily based on nonaccounting information. It would focus on the entity’s business model, its execution, and highlight a number of key indicators and other forward-looking information. The book provides many real-world examples of what this would look like. I particularly liked the author’s attitude that their proposals would not require new regulations. The accounting profession has been regulated into irrelevance. What is needed is more innovation, the antithesis of regulation. I also agreed with their three proposed reforms to GAAP: Treating intangibles as assets (at cost); reversing the proliferation of estimates; and mitigating accounting complexity. Their needs to be more judgment and principles, and less rules.

First a disclosure, I’m a business (NOT accounting) professor and I research, study and teach strategy, knowledge management and human capital (for a few years or decades). Studying Intellectual Capital is how I became aware of prof. Lev’s studies on the subject. Also, I usually do not write reviews, but in this case, I thought I should as a service to people like me who are frustrated with the lack of understating of the knowledge-driven economy, and the lack of valid and reliable indicators of it, specifically, of human capital or talent. In my humble opinion, Profs. Lev and Gu have done the impossible (for accounting professors) and this is to suggest in plain English why their profession is at risk of becoming irrelevant to investors and managers. They have done that methodically and rigorously, suggesting that the vast majority of the information created by the current in-use accounting method is irrelevant at best, and sometimes plain harmful. I have suggested the same for many years, but now I have the numbers to support such positions which are provided by highly respectable accounting professionals. But their book goes much further. The book suggests an industry specific framework (which is revolutionary for accounting) of reporting and management of tangible and intangible assets, as well as needed modification in legislation of economics to enable efficient and effective management of assets and investments. The book also provides four detailed examples of industries that illustrate the use of their proposed framework. All that in language that is easily understandable by readers that are not accountants.

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