

## ARTÍCULOS DOCTRINALES / ARTICLES

**‘Going concern’ assumption and ‘liquidation’ assumption. The contribution of economia aziendale in historical perspective****Giuseppe Galassi**

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Recibido: 04-08-22; Aceptado: 21-02-23.

**Cómo citar este artículo/Citation:**

Galassi G. (2023). ‘Going concern’ assumption and ‘liquidation’ assumption. The contribution of Economia Aziendale in historical perspective. *De Computis - Revista Española de Historia de la Contabilidad*, 20 (1), 31 - 44. ISSN: 1886-1881 - doi: <http://dx.doi.org/10.26784/issn.1886-1881.20.1.7922>

**Abstract:** The focus of the paper is on the income orientation (versus capital orientation) that proved to be particularly relevant in Italy during the last one hundred years in conjunction with the monetary equilibrium, an axiom of *economia aziendale* which helps, still nowadays in times of transmodating dynamics, to face and solve many problems, included ‘on going’ and ‘abandon’ decisions.

Furthermore, the aim of research is to draw attention to the large Italian literature, often internationally unknown, hoping it can contribute to the knowledge of accounting history in different Countries and cultures.

Throughout one hundred years of *economia aziendale* it has not been possible to split various periods in which more emphasis is on the assumption of ‘going concern’ or on the assumption of ‘liquidation’, because the different Authors refer systematically and continuously to both hypotheses in a joint economic connection.

The ‘going concern’ hypothesis is referred to every ‘economic unit’, *azienda* in Italian literature. The contemporary overall crisis involves accounting statutory regulations and standard setters, debating prospective conditions of concern continuity, which is the economic, financial, monetary, patrimonial and general synergic equilibrium, as well as the connected social, political, anthropological, environmental, sustainability aspects.

The accent is on *income* flows magnitudes in order to ‘on going’ or ‘wave’ decision. In this way, also ‘money and credit’ dynamics is interpreted in the aspects of *income production*, the maintaining of ‘monetary equilibrium’, and the control of capital structure. In this regard the *income concept*, in different configurations, is a fundamental unavoidable construction, especially *economic income*, which tends to move the determination to decisions and implementing actions, also in most adverse situations, considering in the decision process all the variables which explicitly reflect the *azienda*, concern, in its unitary, dynamic, *continuum* system.

Hence, the constant control over ‘production conditions’ and also ‘monetary equilibrium’, whose maintenance is through both suitable characteristic production operations and by appropriate financial-monetary operations as well.

**Keywords:** *economia aziendale, going concern, income capacity, economic capital, liquidation value, market values, monetary equilibrium, general synergic equilibrium.*

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**1. - Introduction**

The ‘going concern’ assumption is referred to every ‘economic entity’, *azienda* in Italian literature, micro and macro, and its *continuity* is associated to the strategic perspective in every moment of the entity life, with great impact on the operations, organization, reporting and sustainability (Galassi 2021), particularly in contemporary world of high turbulence, complexity, crises, pandemic and wars disasters. The main entities’ socio-economic and political purpose is to protect all classes of interests, internal and external, institutional and not, stakeholders, included investing concerns, through wealth and value production in the long run (cf. extensively Schweitzer and Galassi 2012; Lombardi 2021).

The economic crisis since 2008 (see Mattessich and Galassi 2016) affected many economic sectors all over the world with consequent accounting statutory regulations oriented to help overcoming difficulties and also to suspend the prospective *concern continuity*, postponing the implementation of the Crisis Code, Law Decrees 14/2019 and 118/2021) in Italian institutional context (cf. widely Fondazione Nazionale Commercialisti 2021); hence the urgency of programming and controlling systems for favoring and monitoring the conditions of *concern continuity*, that is economic, monetary, financial, patrimonial and general equilibrium (cf. amply on display Amaduzzi (1956; Masini 1979: § 9; Paolone 2022: *passim*). The premises of these restoring processes are reliable information for rational choices (see Gianfelici *et alii* 2021), including occasionally the decision for continuing or abandoning the entity at times in form of liquidation (cf. Law Decrees 23/2020 and 77/2020; Guatri 1986: 70-74; 136; *passim*).

In the IFRS context, where the accounting standards are more and more oriented to found valuations on prospective cash flows, above all it is necessary to stress the *income flows* magnitudes for the decisions to continue or abandon. This is along the classical Italian *Economia Aziendale* axioms and framework, based on systematic analysis for a long period of time (Adamo 2021: 147; Quagli and Avallone 2020: 260-61).

## 2. - Value production, ‘system of values’ and general business equilibrium

Valuation problems must be considered in a structured environment in which the relevance of relationships is dominant. The preference to approach income magnitude is to adopt a view large and long enough, in space and time, embracing an ‘economic concern’, *azienda* in Italian literature, and then applying measurement rules referred to individual components (Zappa 1937: 338-43). Needless to say, system approach means that the ‘going concern’ value may be far different of the sum of the values assigned to the sub-systems;<sup>1</sup> in the classical perspective the ‘economic results’ are firstly imputed to the entity and then to the single economic agents, ‘production factors’, or ‘production conditions’.

The valuation principles and *income* for the *enterprise as an economic unit*, business *income*, involve the estimated replacement of ‘production conditions’ and their conjectured contribution to the ‘value production’. This means to predict *costs*, *revenues* and a discounting of connected flows (for *costs-revenues* versus balance-sheet approaches cf. Braun 2019; Galassi 2020); *cost* and *revenues* are magnitudes of joint endeavor and joint accomplishment (Zappa 1956, I: 264-69; Zappa *et alii* 1955: 136-38). In a successive approximation, revenues are classified according to sources and costs for keeping the economic environment favorable to the revenues flow are separated as well.

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<sup>1</sup> A summation of current values of all ‘production conditions’, resources, for a single firm should approximate the value of the enterprise under specific set of circumstances, assumptions about the absence of any particular synergistic value added, lack of extraordinary managerial ability, and meaningful deviations from standard risk features.

The control may be effective even when the only reference point is referred to overall considerations such as *business income*. For *income determination* and for ‘liquidity’ purposes the appropriate unit seems the larger alternative, considering the single resource, the *economic entity*, or sometimes a *super-entity*, in the longer and harder perspective of classes of interests (internal, external, institutional and not), stakeholders, their decision areas, their reaction patterns, and their needs.

The *business income*, for example, calls for ‘estimates’ and ‘conjectures’ of past, present and future favorable and unfavorable events, and conventions for coordinating the related ‘estimated values’ and ‘conjectured values’ in some kind of time horizons (Azzini 1982: 110-15; Ferrero 1968: 289-96; Masini 1957: §§ 6-8; 1961: § 3; 1979: 90-3; Onida 1965: 467-71; Zappa 1957, II: 889; 895; 899); this approach does not mean to avoid the problems of separable contributions, economic services, in the joint economic efforts and conjunctions and the need for determining single contributions to future events.; clearly *estimates* and *conjectures* must be tightly connected to factors and individual agents, relevant to the future flows of events, and appeal to their ‘cause and effect’ relationships and for responsibility. This is the rational basis for conjectured values, such as, *business income*, ‘balance-sheet capital’, ‘economic financial situation’, ‘economic efficiency indicators’, ‘cost of production’, and so on. Doubtless *estimates* and *conjectures* of future *costs* and *revenues* for an entire enterprise must be related somehow to single services necessary to maintain the continuous *income flow*, and these services are usually related to particular sources, potentials for specific kinds of contributions.

The investigation intends to deal with the ‘going concern’ assumption and its implications for the entity ‘system of values’ for business performance evaluation and resources allocations; it aims also to highlight the ‘continuum monetary equilibrium’ in conjunction with ‘economic equilibrium’, ‘patrimonial equilibrium’, therefore with the general business synergic equilibrium (for equilibrium of the economics of every concern cf. Masini 1979: §§ 9.1-9.4; Zappa 1962: 61-85). In this way ‘money and credit dynamics’ is analyzed in the aspect of *income production*, of the correlation with maintaining the ‘monetary equilibrium’, and with the control of capital structure.

As to the actual choice of a valuation method, we can envisage two major positions: *first*, valuation for the continuing operation of the business and *second*, valuation for the purpose of sale or liquidation.

After a positive continuity judgment of the enterprise not only one but different classes of values, ‘historical values’, ‘current entry values’ (‘replacement values’), ‘current exit values’ (such as potential ‘resale or liquidation prices’, that is ‘net realizable value’ or ‘current cash equivalent’, the Chambers’ term for exit values, 1966; 1980), ‘discounted economic values’ and so on (cf. Amodeo 1965:117-22; *passim*; Andrei: 2004, *passim*; Ferrero 1995: 199; Saraceno 1978: 135-42), can be relevant to determine the business performance (as to the classes of values in definite contexts, methodologies, criticism and open questions see Comuzzi 2021: 551-74; an interesting debate on ‘fair value’ is in Mora *et alii* 2019; Donleavy 2022).

Specifically the appropriateness of historical values is as throwing light on the future prospects (Galassi 2020); in most cases, investor entities prefer recent rather than ancient data. In any case, past *ex-post* data, present data, *ex-ante* data are essential to predict ‘relative uniformities’ and trends for offering timely information and decision, followed by action. *The valuation criteria are instruments and the determination of alternate means with different ends is the core of economia aziendale, entity ‘economics’, and accounting itself* (cf. Mattessich’s CONAM, Conditional Normative Accounting Methodology, 1995: 11).

### 3.- Azienda, continuing firm and liquidation value

In the absence of ‘contrary evidence’, the economic concern, *azienda* in Italian literature, should be viewed as remaining in operations perpetually; it is fundamental the quality of the evidence for the related decision. The ‘going concern’ premise is appropriate in most situations, however there is no reason to suppose away and neglect the event of liquidation. It is an equilibrium condition the possibility to convert the equity participation in share capital into a ‘monetary availability’, both in ordinary operations and in hypothesis of termination of activity for voluntary liquidation.<sup>2</sup>

The connections between continuity and *azienda*, economic concern, are terribly complex and tightly interrelated to entity objectives and aims. The ‘on going’ decision must be shaped and supplemented with a series of decisions concerning resources employed, strategies, production processes, economic combinations and co-ordinations (cf. Galassi 1974: §24, ff.). The concept ‘firm survival’<sup>3</sup> is extremely vague, difficult to interpret, and must be related to the entity organizational structure, to the roles and needs of all classes of interest, institutional and not, the managers as well, according also to modern *economia aziendale*, entity economics, theory, not simply to stockholders interests (see diffusely Amaduzzi 1957).

Appraising evidence for assuming an indefinite, infinite, ‘going concern’ hypotheses, with no contrary evidence, is not easy at all, because evidence does not say of its own relevance and does not refer to other possible evidence. Business termination is always a possibility and the information about ‘liquidation values’ may be relevant and fruitful, taking into account that information is not costless and the choice is between presenting this information regularly in the periodic reporting process or of determining it only when preliminary decisions indicate that the net value of information is worthwhile<sup>4</sup> (Galassi 1987: 624-28).

All this says about the increasing difficulties on the appreciation of business economic-financial conditions and ask in correlation for information methodologies oriented at the management of ‘continuum monetary equilibrium’.

A ‘going concern’ decision usually means that a near universal alternative, liquidation, is not relevant enough to look for other information more appropriate; in many cases the weight of evidence is so overwhelming for continuity that further consideration is not rational.

*With reference to the decision of the investing concern to continue or abandon the enterprise, the valuations are on specific alternatives by a process that compares the expected future economic returns from the specific ‘going concern’, with various other subjective valuations, obtained by disposing of its interests in the entity, and employing the capital funds differently.*<sup>5</sup> The investing entity needs to know the present ‘economic value’ of its holding in the enterprise so that it can

<sup>2</sup> The continuum space-temporal ‘monetary equilibrium’ is systematically integrated with the ‘general synergic equilibrium’ and consequently with the achievement of concern institutional ends.

<sup>3</sup> The term ‘survival’ without other qualification does not express the business ‘income capacity’, thus the conditions of long-lasting economic life; also the concept of ‘business development’ is not in any case a necessary condition in this regard (Azzini 1982: 16.1). A focus on the ‘entity continuing survival’, durability, is in Alexander *et alii* 2019.

<sup>4</sup> Business events and their mutual interrelations have qualitative and quantitative features coming from decisions founded on the information. On the other hand, real economic events offer material to the information.

<sup>5</sup> With reference to the correlation between positive and negative variations of monetary availabilities, *disponibilità a vista* in Italian literature, it can happen the abandon of a process or a particular ‘production combination’; it is worthwhile pointing out that the abandon or termination is not properly a ‘disinvestment’, as, more precisely, this is a change of investment, since availabilities, also monetary, are a form of investment. As to the ‘reinvestment’ they argue about multi-opportunities, but ‘monetary holdings’ can be a form of investment for pursuing elasticity to all ‘production conditions’ of an entity with wide variety of intertwining; furthermore we cannot forget that ‘disinvestment’ is often tightly connected at complex problems of ‘work force’.

compare alternatives feasible as a result of liquidation.<sup>6</sup> It is the ‘liquidation value’ of its investment, not the liquidation value of the enterprise, which is relevant for its decision.

‘Realizable values’ (the realization postulate is amply on display in Galassi 1966) say about ‘opportunity costs’ in a ‘liquidation process’, taking into account ‘removal costs’, but do not necessarily show the ‘going on’ opportunities actually afforded, as well as the potential *income capacity*; to the extent that ‘realizable values’ keep up their abstract spread from ‘current replacement costs’, they may be used as proxies for ‘entry values’. Liquidation assumption is almost always a chance and ‘liquidation values’ are definitely relevant to these decisions<sup>7</sup>. Totally different is the issue whether these values help for determining the economic performance of a continuing ‘going concern’.

Nevertheless if an investing concern can influence directly or indirectly the future prospective economic-financial situation of the enterprise, ‘dominant investor’, the ‘liquidation capital’ of the firm is significant to his decision, which is based on comparing (a) his expected economic results from continuing the enterprise, ‘economic capital’ magnitude, (b) the business ‘liquidation capital’, included many meaningful considerations about liquidation, economic value of ‘liquidation capital’ reinvested, (c) expected market value of his ‘equity participation in share capital’ of the enterprise. A comparison of ‘economic capital’, ‘liquidation capital’ and ‘expected market value’ will say whether going on or abandon the azienda, concern. Needless to say, the market value is variable as a function of other capital investing alternatives; in *very first approximation* if the ‘market value’ is higher than ‘economic value’ or ‘liquidation value’, the equity participation should be dismissed (these issues are amply on display in Ferrero 1966: §§16-19; Onida 1960: 283-84; 1963: 725-28; 751-55).

If a ‘dominant investor’<sup>8</sup> has no market for his net equity holding in the enterprise he will be interested in a comparison of the best alternative investments for the ‘current liquidation capital’ with the expected abandon of benefits from continuing the enterprise; this kind of investor needs all sorts of information in deciding how to improve the ‘operating economic-financial prospects’, the ‘current value of liquidation capital’ or both, decision which is extremely complex, taking into account that these are not the only dimensions of the decision process. In every case, the conjectural subjective valuations are on the possibilities for improving the performance of the ‘going concern’ as well as to appraise the alternative economic-financial prospects from the fruition of such capital funds, which is possible reinvestments in all kinds of existing and potential concerns, *aziende*.<sup>9</sup>

<sup>6</sup> It is relevant to highlight that when in business enterprises production processes or particular production combinations go out, in a physiological hypothesis result monetary availabilities which are used in the entity for the most different investments, such as debits reduction, credits increment, investment in fixed assets, and so on; there is not the only hypothesis of starting up other processes or ‘combinations of processes’. With reference to the great variety of economic reality and situations, it is simplified the hypothesis of processes with a ‘monetary cycle’ and the payback of invested monetary availabilities, allowing, in concomitant correlation to the cycle, to set up new processes.

<sup>7</sup> When we consider for complex business decisions different horizons according the ‘time’ (short, medium, long) and to ‘space’ (a specific market, more markets, an operation, a particular area of ‘production combinations’, the set of business areas, therefore the concern general combination) always, above all in ‘monetary and credit’ variations, reveal themselves entanglements, more than it appears in *income* variations.

<sup>8</sup> One is reminded that the business development strategy, increasing market share, in order to become ‘dominant enterprise’ can have firstly favorable effects on *income production*, but if not properly set up involves unfavorable consequences on the ‘financial situation’, so on the conditions of ‘monetary equilibrium’.

This expansion strategy often determines, *ceteris paribus*, greater monetary fund requirement with the consequence that not rarely the attention of business operator is more at the problems of ‘financial management’, *lato sensu*, and ‘monetary management’ than at the problems of characteristic *income management* or ‘patrimonial management’, or at last of business structure and governance, such as production operations and combinations, personnel administration and so on.

<sup>9</sup> It is helpful to stress that if we move from the constant business size to the hypothesis of its increment, there are cumulative effects of ‘monetary requirement’; in this connection it emerges, among other things, the problem of the

For the valuation of prospective ‘economic-financial situation’ of the business concern (a continuing system of production conditions), the *income concept, in some configurations*, is an essential construction which must be implemented and improved, not so much the *income* as a guide to consumption, that is *consumable income* (Zappa 1937: 285-88; Hicks 1939:172; Onida 1951: 54-56; Alexander *et alii* 2019: 355; Alexander and Fasiello 2021: 29) which tends to emphasize the *liquidity aspects of realization*, while to highlight the *economic income* determination tends to move *income* recognition to decisions and implementing action<sup>10</sup> (Galassi 1966: *passim*).

#### 4. - Liquidation value, *income capacity* and continuum monetary equilibrium

For the ‘continuity or wave decision’ attention to *income capacity* is focused on internal and external conditions in total unity<sup>11</sup>, which is on expectations about the concern economic-financial situation. Certainly, it implies exploration of the chances for improving the performances of many agencies, such as the kind and placement of ‘production conditions’, the management performance in specific areas and sub-areas, and expected changes in environmental opportunities. ‘Realizable values’ offer some insight as to the value of liberated ‘production conditions’, resources, in different investments; furthermore they may offer a meaningful valuation of prospective environmental conditions.

‘Current realizable values’ indicate the business enterprise control over concern resources under a highly specialized set of conditions. The difference between this specialized control capacity at two points of time might be used as a proxy for a magnitude of, or even a definition of ‘economic result’, considering that this definition of *income* has a slight use and certainly is under criticism; as a matter of facts *income* is generated by the activity of the enterprise, that is by capital and human resources in economic conjunction (Masini 1979: §§ 10-11). Doubtless, there is a long tradition for assuming ‘production conditions’ as instruments for exercising managerial ability.

With the received view, all quasi-rents and ‘realized excess present values’ are assigned to the business enterprise and included in *income*. These quasi-rents in excess of a normal *income rate* on comparably employed capital are used, *inter alia*, for valuation of management and generally work force performance (topic amply on display in Masini 1979 and in so many others of his relevant writings), but *income* cannot be attributed only to ‘human resources’ instead of to the entity; in any case ‘production conditions’ are assumed to contribute only to the extent of their costs (for human resources computation see Viganò 1976). Certainly, the possible difficulties in such computation are recognized also by Marx and the physiocrats. It remains always the problem of measuring the managerial and work force performance through different valuation criteria, ‘original costs’, ‘current replacement values’, ‘current realizable values’, ‘present values’ and so on and so forth.

The ‘going concern’ assumption implies some kind of ‘subjective expected value’ about the *azienda*, entity, and also for alternative economic units, possible better opportunities for which the

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enterprise ‘financial autonomy’, just to express how the politics or the growth strategy often are connected to the loss, partial or total, of such autonomy in the widest possible forms.

<sup>10</sup> Often they say about a correlation among ‘profits’ and ‘net cash flows’; it is a very first approximation the hypothesis that correlates, for instance, *gross income* of particular production combinations with the same magnitude of ‘monetary availability’ in the reference period (exercise) of *gross income* determination. We have ‘gross income results’ and ‘net income results’ of particular and general exercises; on the other side there are variations of ‘monetary availabilities’, all in a discrete time, that is in a developing of variations, each with some features: increments and decrements, positive and negative variations for different operations in different periods.

<sup>11</sup> To deeply realize the problems of ‘monetary equilibrium’, ‘economic equilibrium’, ‘general equilibrium’, it is necessary to know the connections of all business phenomena (not only the phenomena represented by values from periodic general syntheses, such as *income* statements, balance-sheet capital, cash flow statements, funds statements, and so forth) of the times and exercises to which *income* and patrimonial syntheses are referred.

capital funds from liquidation might be employed. ‘Current realizable value’ from immediate liquidation is certainly a relevant element in this overall decision process, knowledge doubtless useful which helps to determine the magnitude and range of feasible alternatives, taking into account that other financial lines, such as ‘credit capacity’, are relevant for financial decisions. The point is that the ‘liquidating value’ of currently held resources is one source to finance alternatives, only a partial measure of the entity ‘financial power’, considerably less relevant than the opportunities available on the basis of *income capacity*. Prospective realizable earnings and related maturity are also meaningful indicators of fund-raising power; *financial capacity comes from income capacity*, not *vice versa* (Caprara 1954: 91; 201; Zappa 1957, II: 567; 754; Devine, 1985, III: 77).

The ‘credit capacity’ of a business enterprise, consequently its various elasticity in composing the variations of ‘money holdings’, *disponibilità a vista*, in a continuum monetary equilibrium is different over time according: (a) its *income dynamics*, (b) changes of its patrimonial structure, (c) the dynamics of money supply in monetary financial capital markets.<sup>12</sup>

If liquidation has been discarded advantageously, the operators will be interested in expected future *incomes* from the going concern, *azienda funzionante*;<sup>13</sup> in this hypothesis ‘current entry costs’ assume increased relevance – *realizable income* with ‘opportunity costs’ data would appear preferable in the short run, but *business income* with ‘current replacement costs’ data is probable more helpful in the long run.

Nevertheless, ‘current replacement costs’ are not the best. First of all the final ‘economic results’ for the investors are reached at the disposal of their equities participations in share capital, not when the enterprise is liquidated, taking into account all kinds of short run variables in the financial markets. Again for the investor the ‘opportunity cost’ to remain in the firm is probably not the ‘entry value’ for alternative investments or the ‘exit realizable value’ of the economic entity. Moreover, a continuing firm will need replacement of ‘current production conditions’, but these fund requirements are scarcely connected to *interim* ‘current entry costs’, which are substitutes for expected future expenditures.

## 5. - Valuation for the continuing operation of the business

With the assumption of long term ‘going concern’, possibly infinite, we must conjecture the timing and magnitude of future prospective *costs and revenues* essential to prove continuity with a definite potential of production capacity.<sup>14</sup> These future costs might be determined by ‘historical costs’ or by ‘current replacement costs’, being both a rough predictor unless conditions are relatively unchanged. Assuming the hypothesis of continuing concern and that exercise periodic depreciation be based on prospective economic replacement cost, directly estimated future expenditures, rather than ‘*interim* current costs’, would lead to capital maintenance in economic sense (cf. Azzini 1976:

<sup>12</sup> In every enterprise, for internal and external dynamics, it is necessary time to time determining the key variables, to keep under control, for maintaining a ‘monetary equilibrium’, allowing timely decisions and actions, also in most adverse situations (exercise losses, particular and general credit crunches, markets declines, and so on).

These variables can be referred to parts of the enterprise, but in the decisions, we must consider additionally some variables, which explicitly reflect the enterprise in its unitary, dynamic, *continuum* system.

<sup>13</sup> On the relationships between ‘liquidation capital’, ‘balance-sheet capital’ and ‘economic capital’ cf. Ferrero 1968: 81-105; §§ 15-18; Onida 1965: 754-55.

<sup>14</sup> All value is expectancy (Fisher). If the expectation fails, the firm continuity, immortality, fails; while the expectation continues the business entity is a ‘going concern’. In accounting, business economics and *economia aziendale* the exercise periodic unit is sometimes ‘infinite’, for which reports of accomplishment and status may be useful, even if the universe and eternity are too large and too long. Doubtless discounting events in the infinitely distant future results in determination of zero, *i. e.* their discounted value at any rate, capitalization rate in economics, other than zero is near zero.

*passim*; 1982: 11; Andrei 2004: 129-36). The implication is to take into account the expectations of irregular expenditures over the interval periods, exercises, and to smooth the resulting *income* magnitudes; the methodology does not divide 'holding gains' from 'operating gains', instead a smoothed part of predicted holding gains and losses is included in the depreciation *quota*, and therefore in the overall *income* magnitude.

Through depreciation based on the predicted renewal cost, 'return on investment' would be a combination of historical investment cost with allowances in terms of future cost expectations.<sup>15</sup> Return on original cost investment without price level adjustment, revaluation (Masini 1955: §§ 25; 29; 31-32; 1957: 1.2; 3.7; 3.8; 1961: § 3; Coda: 1963: 2.3; 3.3; Ferrero: 1966: 53-57; Andrei 2004: 123-29)<sup>16</sup>, is not reliable, because the relationship is of 'current income' to original investments done time ago, with internal and external different economic-financial conditions; unchanged historical costs would appear good predictors of future capital investments in order to maintain continuity only under static conditions or with technological progress offsetting price variations. The 'historical cost' is based on the assumption that the 'liquidation value' of the enterprise (Ferrero 1966: 16-18), so far in the future, is unknown, so that *income* is difficult to define in terms of discounted value increments.

The perpetuity method is one of the much employed in *Economia Aziendale* for the determination of entity *economic capital*, included goodwill (cf. Masini 1961: 93, ff.; Coda 1963: § 3; Ferrero 1966: chapt.6; Cattaneo 1998: chapt. II; *passim*). With an assumption of 'going concern', *azienda funzionante*, in combination with related conditions such as 'capital maintenance' (cf. Mattessich 1995: ch. 6; Alexander *et alii*: 354-55) and flows regularity, the 'infinite' thinking and methodologies assume great relevance, diminishing the necessity for periodic discounting on a systematic basis. The *limit* of this situation, with normalized *incomes* and normalized 'rates of return', *tends to infinity*, and is equivalent to discounting in perpetuity: the capitalized value of the enterprise is a relation between the numerator, normalized *income* flow, expected equal periodic normalized *net income*, and the denominator, expected rate of return. If the assumption of regularity of the normalized flow is weak (the estimated time distributions of *revenues*, *costs* and *incomes* are reasonably not regular) the method is left for major expected irregularities in favor of ordinary discounting methods, integrated with *plus* and *minus* revaluation values (Masini 1979: 107-14).

The value intact assumption hypothesizes that the value at the beginning can be preserved in some way by deducting a part of the 'fund flow return on capital' before assigning the remainder to *income* (Azzini 1976: 39, ff.). That is to say the current contribution is divided into the portion essential for keeping intact the future prospects, *income capacity*, 'long run net inflows', and that portion available for development or withdrawal, *income*, instead of trying to estimate the indefinite future with regard to values flows (see Zappa 1937: 73; 134-36).

Due to all sorts of decisions, actions, internal and environmental conditions, the actual generation of funds is highly irregular. Fisher (1906; 1930), one of the fathers of the discounted process, divides the contribution of a period, exercise, into the amount consumed, *income*, and the magnitude reinvested. Investment appears as *income* only when consumed. Current 'capital values' depend on expected *income*, *i. e.* *economic capital* value is discounting future expected consumption (see Galassi 1980). Fisher followers have to conjecture future consumption, while other discounters have to estimate future *net income* flows; moreover the investing concern is expected to draw on its

<sup>15</sup> In tight connection, it is useful pointing out that in simplified finance models the first purpose is the 'return of invested capital', deemed foundation of 'financial equilibrium', and contextually they infer it is not neither 'business liquidation', nor an hypothesis of capital repayment to shareholders, but they lay an extremely simplified assumption of 'reinvestment in the enterprise', without any reference, for example, to expectations of laborers of all levels, included the managerial work.

<sup>16</sup> Revaluation methodologies, with specific reference to 'intangibles', according also to civil and fiscal laws, are amply on display in AEDI (2021).

environment knowledge as an opinion as to whether future *income* is likely to be conserved through the ‘production conditions’ provided. Increased capital investments are interpreted as offering a greater facility for conjecturing uncertain future *economic results*.

It is not easy to discount subjective prospects in order to determine *income* magnitude. If ‘productions conditions’, balance sheet capital, are referred to a situation of exit impossibility, the intervening variations of ‘income rates’ appear non relevant;<sup>17</sup> in this sense conventional accounting considers ‘current values’ of balance-sheet capital, and their *interim* changes, unrelated to *income* determination, so not an *income* component, particularly if financial capacity is independent of ‘production factors’ employed, and if variations in capital costs, included fixed assets, are entered when happened.

## 6.- Valuation for the purpose of sale or liquidation

The relevance of ‘current realizable values’ to business performance is vivid when exit is a continuous opportunity. On the other hand, in the discounting methodology the aptitude to exit has equally strong relevance. If there is such ability, then the investing concern is no longer conditioned by the initial *income rate*; if sale is possible the market can also value the support of the expected ‘economic results’ so that the operator’s subjective valuation and representation is supplemented by market estimates, which are subjective too. The relevance of market values, when exit is possible, is that they express the ability to move to alternatives; they do not indicate individual opportunities for reinvestment, and in this regard the constant control over ‘production conditions’, specifically over the ‘monetary equilibrium’, assumes more general tune and fullness.<sup>18</sup>

The investing concern needs to know the enterprise elasticity (Azzini 1961: *passim*), reaction and adaptability to the exogenous inputs, particularly variations of environmental conditions.<sup>19</sup> Therefore the rigidity or *nul* adaptability of a ‘bound entity’, lost opportunities, has to be connected to the kind of decisions and actions that originally determined the restrictions (cf. widely Azzini 1961); these combinations of particular lost opportunities and defined past decisions should be available in case of future similar decisions, even if ‘prospective economic-financial situations’ will be in some degree different (see Azzini 1962: 43-45; *passim*), taking into account the entity commitment to ‘going on’, likeness and analogies; a magnitude of ‘opportunity costs’ for inability to

<sup>17</sup> The emphasis on ‘going concern’ is itself a strong point for the ‘stay in business’ approach rather than transactions that might result from immediate exiting. Once the ‘stay in business’ assumption is made, all *interim* changes in market value are irrelevant and, unless the case of default is probable, neglected.

<sup>18</sup> Moreover, the maintenance of ‘monetary equilibrium’ is through both suitable characteristic production operations and by proper financial-monetary operations as well. Gino Zappa (1937:345): “In the complex enterprise investments also liquidity, or, better, the possibility of quick transformation, at least partial, of the investments it is a suitable circumstance for reducing risks that the future can connect at the most safe capital investment” (translation by the author).

<sup>19</sup> In turbulent economic times, these variations constitute default risks for environment dynamics that subvert the reference of operations, general and partial economic combinations, to the sequence: beginning, growth, maturity, decline, liquidation. Beyond the complexity of *income* dynamics it is added a specific dynamics of ‘money and credit variations’ such that it is difficult searching for ‘relative uniformities’, foundation for pursuing a ‘continuum monetary equilibrium’.

The decline means a reduction of *economic capital* value, which is value destruction over time, which results from worsening of *income* flows, particularly from the expectations related to these flows, and the increasing of enterprise risks (Azzini 1964; Bertini 1987; Guatri 1986: part I; 1995: 6-7).

In the above sequence, the ‘liquidation’ could be substituted by the ‘turnaround’, a return to value production, through all the systematic processes of enterprise recovery. Cf. Arcari 2018; Brugger and Galbiati 2020. In order to the recovery plan and the need of new liquid funds see Zappa 156-57, III: 307.

adapt, rigidity of operating a specialized concern, could then be determined in term of *economic results* of the specialized enterprise in the bound position.

In other words a determination of the enterprise performance is founded on the magnitudes of aims reached in the given situation as well as magnitudes of what could have been pursued under different conditions – actual past opportunities available or future expected opportunities, considering the relevance of past opportunities for future decisions in that they give indications to the business elasticity and adaptability.

It is usually assumed that some sort of reward is expected by sacrificing ‘liquidity’, in some way proportionate to the distance from liquid funds, degree of inflexibility, to the degree of reluctance to move into long-lived<sup>20</sup> ‘production conditions’ (for the interrelationships between ‘economic situation’, financial situation’ and ‘liquidity situation’ see Zappa *et alii* 1955: 105-8). The risk is a direct function of remoteness from ‘liquidity’.<sup>21</sup> If liquidation is impossible, the ‘liquidation capital’ is low or negative (Ferrero 1966: 83-85). In most cases, liquidation below cost is possible, with the risk connected to the expected loss of exiting. But the investing concern risk is also related to the chances of missing opportunities. The risk of ‘technological progress’ and ‘partial obsolescence’ is probably included in the expected loss from either ‘going on’ or from exiting. These risk factors influence both ‘entry values’ and ‘exit values’, which are not affected by a small enterprise own subjective prospective economic-financial situation<sup>22</sup>.

For a ‘going concern’ the change in risk factor seems related to the spread between ‘current entry costs’ and ‘exit receipts’, and in a relatively perfect competition this spread is function firstly of substitution costs and market fees. The risk of ‘illiquidity’ comes from the risk of being unable to sell some ‘production conditions’ without avoiding relevant implications, such as diminishing the entire concern value or the value of ‘relative economic units’, for instance divisional operations, divisional exercises, in other words the optimum ‘realizable value’ of an economic unit, if exit is possible, requires consideration about different economic combinations and co-ordinations, included prospects of subcontracting or leasing of definite production conditions for continuing the enterprise.<sup>23</sup>

<sup>20</sup> In the short run it is possible the estimation of positive and negative variations of money and *valori assimilati*, ‘assimilables’, credits and debits of different kind; in the average horizon estimations are extremely uncertain, nevertheless it is appropriate to call for the attention of the operators on the problems and their solutions; the safety margins (so-called ‘liquidity reserves’ and provisions, included ‘credit capacity’) should accentuate for the future. As to some macro-sets of environment events, perspectives are referred to the long run, future ten years, twenty years, but even they often change every short run.

<sup>21</sup> Every operation determining variations of ‘money and credit’ is analyzed both in the aspect of *income production*, in the correlation with the maintenance of ‘monetary equilibrium’, and finally with the control of capital structure.

<sup>22</sup> A correlation between exercise periodic *income* magnitudes, as a fundamental characteristic of an entity ‘production combinations’, requires, with reference to assumable risks, a related appropriate strategy structure about financial management *lato sensu* and of monetary management as well.; it follows a closely related strategy of risk taking in ‘monetary equilibrium’ (see widely Azzini, 1962: 29-31).

<sup>23</sup> Also the management of divisional units, particular production combinations, has to be seen not only in the side of *income production* (so called control of ‘cost centers’, or *income centers*, for areas or for initiatives), but in order to achieve the ‘general economic synergic equilibrium’ it is necessary to know their influence in absorbing or producing, in a definite dynamics, ‘money holdings’, *disponibilità a vista* in Italian literature; hence frequently the reasons for diversified enterprise in wide sense (products, markets, business areas, and so on) not only for *incomes production*, but also for maintaining the ‘monetary equilibrium’ in a synergic way.

Having an alternative sale market for a business enterprise with a market value not distant from the concern *economic capital* magnitude reduces the investment risk in the entity. More precisely, a reliable high valued option tends to reduce the risk of a negative result if operating prospects get worse. Consequently the 'realizable values' of a business capital may influence the options of investing entities in the sense that alternative investments can be effected through small expected losses. Needless to say, if realizable business value is below the expected economic value of operations, 'economic capital, the realizable value becomes increasingly less relevant. Certainly a significant indicator of relevance for realizable values could be the spread between the value of a going concern, *economic capital*, and its 'liquidation capital', that is the 'goodwill', which is a reasonably close magnitude of this difference.

## Conclusion

One purpose of this historical research was to stress and underline the large Italian literature on the subject, often internationally unknown, promoting the dissemination of accounting history in different context and cultures. *The results of the present research is that the traditional economia aziendale framework is still valid in contributing effectively at the decisions to continue or abandon the economic entity, azienda, especially in these complex turbulent times of crises, pandemia, wars and other disasters.*

After a positive 'on going' judgement of the firm, not only one but different classes of values, historical values, current market values, economic values and so on, can be relevant to measure and highlight the business performance. 'Current realizable value' say about the 'opportunity costs' in a liquidation process, but not necessarily show the 'going on' opportunities actually afforded, as well as the *income capacity*. A comparison of *economic capital*, *liquidation capital*, *expected market value* will say whether to continue or wave the *azienda*, concern. In any case, the conjectural subjective valuations are on the performance of the 'going concern' and the alternative economic-financial prospects from the fruition of such capital funds in all kind of existing and potential *aziende*.

In this regard, the *income* concept is a fundamental construction. The point is that the *liquidation value* of currently held resources is one source to finance alternatives, less relevant than the opportunities available on the basis of *income capacity*. A fundamental axiom of *economia aziendale* is that *financial capacity comes from income capacity*, not *vice versa*.

With the assumption of long term 'going concern', possibly infinite, it is essential the conjecture of future prospective *costs*, *revenues* and *incomes* to prove continuity with a definite potential of production capacity. The perpetuity method is one of the much employed in *economia aziendale* for determination of *economic capital*, included *goodwill*. By the 'value intact' assumption the current *economic contribution* is divided in the portion essential to preserve the future *income capacity* and the portion available for development or withdrawal, *income*: the *economic capital* value is discounted future expected *income* flows. Increased capital investments are interpreted as offering a greater facility for conjecturing uncertain future *economic results*.

Conventional accounting considers 'current values' of balance-sheet capital, and their *interim* changes, not a direct *income* component, particularly if 'financial capacity' is independent of 'production conditions' employed, and if variations in capital costs, included fixed assets, are entered when happened.

Some reward is expected by sacrificing 'liquidity', proportionate to the distance from liquid funds and the degree of inflexibility, reluctance to move into long-lived 'production conditions'. The

risk of the investing *azienda* is a direct function of remoteness from ‘liquidity’, but it is also related to the chances of missing opportunities. The risk of ‘technological progress’ and partial obsolescence is probably included in the expected loss from either ‘going on’ or from exiting. These risk factors influence current market values, which are not affected by a small enterprise own subjective prospective economic-financial situation. The risk of ‘illiquidity’ comes, for instance, from being unable to sell some ‘production conditions’ without avoiding diminishing the entire concern value or the value of ‘relative economic units’. In other words, the optimum ‘realizable value’ of an ‘economic unit’, if exit is possible, requires considerations about different *economic combinations* and *co-ordinations*.

### Acknowledgments

The author greatly appreciates the very helpful comments and suggestions by two anonymous reviewers.

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