This book focuses on the theoretical comparison of the new Conceptual Framework (2018) and the preceding Frameworks (1989, 2010) of the IASB to grasp the extent of revisions and the effects of the major changes to some implications towards the future direction of financial reporting. It was found that this document is of high importance for all the stakeholders of accounting and financial reporting, and this is to be used as the main guide for developing future standards or reviewing existing standards and reporting financial statements. The main purpose of financial statements is not only to provide reliable information about the financial position, results of operations and changes in the financial position of the company but also to show the results of the activities of the company's management in operating business. This is one of the major changes in accounting issues because users of financial reports currently need the information to help them assess management's stewardship.

Shkulipa L. is a Ph.D. and associate professor for the National Academy of Statistics, Accounting and Auditing in Kyiv, Ukraine. She is responsible for the development of six online courses, such as "Accounting Organization", "Implementations of IFRS", "Accounting Policy", "National Standards of Accounting".

978-620-0-53282-4

Conceptual Framework: 1989, 2010, 2018

Shkulipa

Liudmyla Shkulipa

Conceptual Framework for Financial Reporting

1989, 2010, 2018

LAP LAMBERT Academic Publishing

формування я
покращить ма

Imprint

Cover image: www.ingimage.com

Publisher:
LAP LAMBERT Academic Publishing
is a trademark of
International Book Market Service Ltd., member of OmniScriptum Publishing Group
17 Meldrum Street, Beau Bassin 71504, Mauritius

Printed at: see last page
ISBN: 978-620-0-53282-4

CONCEPTUAL FRAMEWORK
FOR
FINANCIAL REPORTING:

1989;

2010;

2018

CONTENT

AUTHOR’S WORD

This book focuses on the theoretical comparison of the new Conceptual Framework (2018) and the preceding Frameworks (1989, 2010) of the IASB to grasp the extent of revisions and the effects of the major changes to some implications towards the future direction of financial reporting. It was found that this document is one of high importance for all the stakeholders of accounting and financial reporting, and this is to be used as the main guide for developing future standards or reviewing existing standards and reporting financial statements. The main purpose of financial statements is not only to provide reliable information about the financial position, results of operations and changes in the financial position of the company but also to show the results of the activities of the company’s management in operating business. This is one of the significant changes in accounting issues because, currently, users of financial reports need the information to help them assess management’s stewardship.

The conducted analysis suggests the overview why the Board revised the Conceptual Framework; the main reasons of impossibility to have a common global Conceptual Framework; the comparison of structure changes from previous Conceptual Frameworks; the major changes in concepts and guidance of each Conceptual Framework's chapter with the updated definitions and recognition criteria for assets, liabilities, and the clarified some essential accounting concepts. The changes in definitions are significantly based not on describing an asset and a liability in terms of an expected flow of benefits. The main fundamental qualitative characteristics of useful financial information are unchanged. However, the usefulness of financial information is enhanced if this information is changed (comparable, verifiable, timely and understandable). The four categories of the major changes, such as a priority, filling gaps, updating and clarifying, were highlighted. It was concluded that changes in the Framework have a significant impact on future resolving accounting issues. Our extensive research has shown that the Conceptual Framework is a coherent system of interrelated goals and fundamental concepts that defines the nature, functions, and limits of financial accounting and reporting. The material may help all users to find new accounting concepts in the revised Conceptual Framework of 2018, the main context of which is attached at the end of this book (English-Russian).

1. INTRODUCTION

The profession of the accountant is getting attack by the general public, various stakeholders, and commentators every time after the large collapses or problems in business. The well-known big corporate failure such as Enron in 2001 (US) or TESCO conflict in 2014 (UK) when mainly users were focusing on the accountants' fault rather than the root cause of the problem. No one realizes that accounting, just like any other discipline, is regulated and restricted by the current normative environment. Some evidence on how the accounting profession is heavily regulated on the example of own experience while working as a private school accountant will be given. It was a great surprise for us. The big company did not have primary documents confirming the expenses and income of the company. Accounting was kept in a software environment without documentary evidence. To the question about necessary documents, the director replied that all of the documents should be found in the mailboxes of previous accountants. Besides, while working, it needed to beg boss about new documents because keeping records without this is not possible. Such like these, there are many real situations, but the accountant who asked the chief all the time for the primary documents could not be automatically guilty. Also, there is a common erroneous belief that the accountants are responsible for the preparation of the financial statements.

However, according to the Companies Act, all areas of value judgments, the preparation of the financial statements timely, accurate and fair at least annually are the responsibility of the directors. The primary purpose of financial statements is not only to provide reliable information about the financial position, results of operations, and changes in the financial position of the company but also to show the results of the activities of the company's management in operating business. In practice, the accountants' general help to prepare the financial statements, but all source documents are provided by the company's director based on transactions for the period. Accountants only should believe that the documents are correct and accurate unless otherwise proved. Do not need to forget also that other experts are involved in the preparation of the financial statements. So, when there are any problems with the company and financial statements, points should not only be pointed at the accountants.

As a result, for avoiding misunderstands this paper is devoted to a primary document what all people should know who are even minimum connected with the preparation of financial statements or with accounting, these are directors and accountants of company, - the Conceptual Framework for Financial Reporting (hereinafter - "Conceptual Framework" or "CF"). Because this document sets the fundamental objectives, underlying assumptions, qualitative characteristics of accounting information, the definitions of the elements of financial statements, the criteria for their recognition and types of measurement, set out the concept of capital which will be researched in details in Section 2 with its gradual historical development.

The Conceptual Framework for Financial Reporting was developed to provide guidance to (i) the International Accounting Standards Board – to assist the development new and revising existing standards based on consistent concepts, resulting in financial information that is useful to investors, lenders and other creditors; (ii) the national regulatory authorities – to develop accounting standards; (iii) the preparers of financial reports – to apply IFRS on practice, for example, auditors – when forming an opinion on compliance of financial statements with international standards, or to develop consistent accounting policies for a specific transaction or event where no Standard is applicable or Standard allow a choice of accounting policy; (iiii) the users – to understand the financial statements and interpret Standards; all persons who are interested in IASB activities (Kesjan and Mullinova, 2017).

This document is not part of IFRS but is directly related to them. The Conceptual Framework is rarely the main point when analyzing financial statements, and yet it is at the heart of every accounting standard, ensuring consistency of terminology, recognition, and measurement (Rodgers, 2007, p. 23). Everyone must learn this document before beginning to work with any IFRS or IAS.

The Conceptual Framework contains a comprehensive set of concepts for presenting and preparing financial statements, creating and interpreting IFRS. In other words, the Conceptual Framework is the foundation of new accounting standards because this document resides in providing structure to the standard-setting process and to provide fundamental concepts and a common set of terms and premises that financial accounting standards are based upon (Gore and Zimmerman, 2007). The purpose of a Conceptual Framework for financial reporting is to ensure that financial accounting standards are "consistent with a unified theory of accounting" (Gore and Zimmerman, 2007, p. 30).

Despite the stated importance of the Framework, the accounting community could not have the one globally accepted framework. Given the purpose and importance of the Framework, a global Conceptual Framework could assist the IASB in achieving its mission "to develop a single set of high-quality, global accounting standards that are accepted worldwide" (Barth et al., 2008, p. 1161). The need and search of a single set of global accounting standards and a global Conceptual Framework are well documented (Barth et al., 2008; Camfferman and Zeff, 2009; Gerber et al., 2015; Zeff, 2010). However, the consensus within FASB and IASB is that the Conceptual Framework fails to achieve the stated intended purpose.

The current status of the Framework does not reflect the specified importance and purpose as is clear in the statement from the IASB (IASB, 2010a; 2010b; 2010c; 2010),