

EXAMINATION OF REVISED VERSION OF THE CONCEPTUAL FRAMEWORK

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Abstract: *The purpose of this study is to examine the revised conceptual framework that is the joint work between the IASB and FASB and published in March 2018. The Conceptual Framework for Revised Financial Reporting is a guidance to expresses the scope, basic concepts and measurement principles of the International Financial Reporting Standards. The study compares the revised conceptual framework with the 2010 version to display the main changes in eight chapters and appendix. According to the results, there are significant changes especially on the definitions of the asset, liability, income and expense. In addition, 2018 version of conceptual framework brings new concepts such as reporting entity or derecognition.*

Keywords: *Revised Conceptual Framework, IFRS, IASB, FASB, Public Oversight*

INTRODUCTION

Conceptual framework is a set of rules and procedures to assist the Board to develop IFRS Standards (Standards) based on consistent concepts, resulting in financial information that is useful to investors, lenders and other creditors. It allows to interpret the standards and presents a choice of accounting policies. The IASC (International Accounting Standards Committee) foundation which has later become IASB (International Accounting Standards Board) issued a statement that mentioned the need to update the existing conceptual framework in December 2000.

Conceptual Framework Convergence Project was initiated in 2004 by the IASB following the Norwalk agreement of 18 September 2002, known as the harmonization protocol between the IASB and the FASB. In order to review the objectives and qualitative characteristics of the financial reporting, the discussion text and the draft text were published on 6 July 2006 and on 29 May 2008 respectively. After partial arrangements, Financial Reporting Conceptual Framework was published in 2010, yet it was not completed. Since the joint work between the IASB and FASB ended in the end of 2010, the project was continued within the IASB as of 2012 (Tomaszewski and Choi, 2018: 47). The International Accounting Standards Board (Board) issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework), a comprehensive set of concepts for financial reporting, in March 2018. It will be mandatory for the periods beginning on or after 1 January 2020 for preparers who develop an accounting policy based on the Conceptual Framework.

THE PREPARATION PROCESS OF THE CONCEPTUAL FRAMEWORK

The IASB and FASB previously commenced a joint comprehensive project on the Conceptual Framework in 2004. However, during late 2010, the Board effectively deferred further work for the other urgent projects and the IASB decided in September 2012 to reactivate the Conceptual Framework project as an IASB-only comprehensive project. The IASB emphasizes that the conceptual framework project should focus on elements of financial statements, measurement, reporting entity, presentation and disclosure. Developments related to the Conceptual Framework project initiated by the IASB are presented in Table 1.

Table 1. Conceptual Framework Convergence Project Stages

Date	Development	Comments
September 2012	IASB-only comprehensive project added to the agenda	Discussion Paper expected in 2013, project aims to be completed in 2015
18 July 2013	Discussion Paper <i>DP/2013/1 A Review of the Conceptual Framework for Financial Reporting</i> published	Comment deadline 14 January 2014
28 May 2015	Exposure Drafts <i>ED/2015/3 Conceptual Framework for Financial Reporting</i> and <i>ED/2015/4 Updating References to the Conceptual Framework</i> published	Comment deadline 26 October 2015
22 Sept. 2015	IASB decides to extend comment period	New comment deadline 25 November 2015
29 March 2018	Revised <i>Conceptual Framework for Financial Reporting and Amendments to References to the Conceptual Framework in IFRS Standards</i> published	

Source: www.iasplus.com, www.kgk.gov.tr

CONCEPTUAL FRAMEWORK SECTIONS OF REVISED FINANCIAL REPORTING

The International Accounting Standards Board IASB issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework), a comprehensive set of concepts for financial reporting, in March 2018. It sets out:

- The objective of financial reporting (Chapter 1)
- The qualitative characteristics of useful financial information (Chapter 2)
- Financial statements and the reporting entity (Chapter 3)
- The elements of financial statements (Chapter 4)
- Recognition and derecognition (Chapter 5)
- Measurement (Chapter 6)
- Presentation and Disclosure (Chapter 7)
- Capital concept and capital maintenance (Chapter 8)
- Explanations on concepts (Appendix)

The objective of financial reporting, chapter 1 is one of the two parts concluded in 2010 as part of the joint project with FASB and therefore only limited changes have been made. The main purpose of this

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chapter is to provide general purpose of financial reporting and display who the primary users of financial reports are. Financial information should be useful to the related parties in buying, selling or holding equity or debt instruments, loans and credits or in management actions. This chapter specifically focus on the management's stewardship.

The qualitative characteristics of useful financial information (chapter 2) was the second of two divisions concluded as part of the joint project with FASB in 2010 and it discusses what makes financial information useful. This chapter which was published as chapter 3 in 2010 revision has limited changes in 2018 version. For information to be useful it must both be relevant and provide a faithful representation. According to this chapter relevance and faithful representation are the elements of fundamental qualitative characteristics of useful financial information. In addition, comparability, verifiability, timeliness and understandability are the enhancing qualitative characteristics of financial information. Besides, this section clarifies the concepts of prudence, measurement uncertainty and priority of essence in evaluating the usefulness of information.

Financial statements and the reporting entity which is a new chapter added by IASB describes the objective and scope of financial statements and provides a description of the reporting entity. The purpose of Chapter 3 is to provide a financial information that is useful to evaluate the entity's assets, liabilities, equity, income and expenses regarding the expected net cash inflows of the reporting entity. This chapter defines the reporting entity concept as "an entity that is required, or chooses, to prepare financial statements". Financial statements are presented as consolidated, unconsolidated and combined and the chapter also states that the consolidated financial statements are more likely to provide useful information than the unconsolidated financial statements.

The elements of financial statements called chapter 4 mainly focuses on the definitions of asset, debt and equity as well as income and expense concepts that are the five elements of financial statements. Although the definition of asset and liability is revised, the definition of equity is not changed. Revised definition of the main elements is given below comparatively.

Previous Version of Asset

A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Revised Version of Asset

A present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce economic benefits.

Previous Version of Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Revised Version of Liability

A present obligation of the entity to transfer an economic resource as a result of past events. An obligation is a duty or responsibility that the entity has no practical ability to avoid

The main changes in the revised version of asset and liability is to emphasize the economic resource concept. In addition, liability part includes "no practical ability to avoid" criterion in the definition of obligations. Income and expense definitions were updated to reflect the definition of assets and liabilities. In particular, the new regulation in the definition of the asset is a proof that the IASB no longer views assets as only physical objects, but as a set of rights.

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Revised Version of Income

Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

Revised Version of Expense

Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

Recognition and derecognition, chapter 5, guides the recognition of assets and liabilities in financial statements as well as the derecognition. Recognition is a process when an item meets the criteria of assets, liabilities, equity, income or expense. The main purpose of this chapter is not to increase or decrease the range of inclusion but to develop a more coherent set of concepts. In addition, the guidance on derecognition is new for this chapter.

Measurement, since the 2010 version of the Conceptual Framework did not provide enough guidance about measurement principles, the revised version covers the shortcomings and describes what information measurement bases provide and explains the factors to consider when selecting a measurement basis in chapter 6. This chapter intends to draw attention to the cases under which the measurement methods change, rather than when a particular measurement method should be used. This section also describes the current value with the concepts of fair value, value in use (for assets), fulfilment value (for liabilities) and current cost.

Presentation and disclosure chapter handles with the presentation and disclosure and guidance on including income and expenses in the statement of profit or loss and other comprehensive income. The newly added section includes concepts that describe how information should be presented and disclosed in financial statements. Furthermore, the concept of Other Comprehensive Income which is not included in the 2010 version of the Conceptual Framework is included in the Revised Conceptual Framework.

Capital concept and capital maintenance (Chapter 8), The text in the Conceptual Framework published in 1989 has been preserved. (Source: IFRS Conceptual Framework Project Summary)

CONCLUDING REMARK

The International Accounting Standards Board (IASB) issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework) in March 2018 that is long term process and takes more than 15 years. The Conceptual Framework for Revised Financial Reporting has become a guidance that better expresses the scope, basic concepts and measurement principles of the rapidly developing and updated International Financial Reporting Standards. The main point to consider here is that the update project on the Conceptual Framework is essentially a convergence project between the IASB and the FASB. In other words, the aim of the project is to bring the two boards together in the project rather than an update in Conceptual Framework. IASB and FASB commenced a joint comprehensive project on the Conceptual Framework in 2004 but could not finalize the revised version, Conceptual Framework is the result of studies mainly carried out by IASB. Conceptual Framework is likely to change and update within the dynamics and needs of future financial reporting mentality. Future revisions and updates should not only consider the financial dimension of reporting but also focus on the non-financial information in reporting to provide more insights to all stakeholders.

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