BASIC ASPECTS CONCERNING
THE SINGLE CONCEPTUAL FRAMEWORK

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Abstract
Following the creation of a set of concepts, principles and generally accepted international accounting conventions, to which any elaboration, interpretation or enforcement of accounting and financial information would refer, IASC (later IASB) has developed, in 1989, the Framework for the Preparation and Presentation of Financial Statements that, although inspired from the American one, didn’t address predominantly only to a single category of users (investors), but several categories of representatives of accounting information demand.
Nowadays, it is now known that international body of accounting normalization - IASB (International Accounting Standards Board), cooperates with the American body - FASB (Financial Accounting Standards Board) for the purpose of developing a Single Conceptual Framework, which is an important phase in strengthening current and future international accounting standardization process. Conceptual Framework for Financial Reporting, published in September 2010 by the IASB, replaced the Framework for the Preparation and Presentation of Financial Statements issued in 1989 and is actually the result of the current process of updating the General framework of the IASB, but also represents the completion of an important stage in the process to develop a single conceptual framework.

Keywords
accounting; globalization; conceptual framework; financial information, IASB; FASB.

JEL Classification
M41

1. Introduction
The initiation of international accounting convergence occurred in 2002, when the accounting normalization international body and the American one made public the initiative of signing a memorandum of understanding – Norwalk Agreement, act that ultimately represented a compromise with the purpose of adoption high quality compatible solutions for the problems occurring in accounting treatments (Dima & Şărămăt, 2011). In this sense, the assurance of accounting conceptual frameworks of IASB and FASB has represented and still does a very important goal.

The idea of development and use of a conceptual framework emerged and became feasible for the first time in USA, belonging to the American accounting normalization body – FASB. Therefore, during 1973-1985 the American Conceptual framework is realized, that responds to theoretical and institutional issues of American accounting normalization and formed the basis for the elaboration of accounting frameworks adopted one by one in: Canada, Australia, United Kingdom, as well as by the international accounting body.

Following the creation of an international accounting doctrine, namely the formulation of fundamental conventions conveying any elaboration, interpretation or application of accounting and financial information rules, IASC developed in 1989 Framework for the Preparation and Presentation of Financial Statements, inspired
from the American one and often compared to it, being regarded as having its main purpose of leading to solid standards and indicate nature, purpose and limits of financial accounting and statements (Feleagă, 1999). However, the IASC framework did not address mainly to a single category of users (investors), but to a wide range of representatives of accounting information demand and has more pronounced explanatory and evaluative character. Conceptual Framework for Financial Reporting was issued by IASB in September 2010. It has replaced the Framework for the Preparation and Presentation of Financial Statements issued in 1989.

2. The need for conceptual framework
For IASB, worldwide economic entities prepare financial statements to present to external users, which although appear similar from a country to another, are different in terms of content due to social, economic, legal and cultural factors. These factors lead to the use of different definitions of elements of financial statements and various bases of their evaluation. Framework includes theoretical concepts and principles which together constitute the reference system for the preparation and presentation of financial statements for external users, which is what accountancy should be settled as normative accounting theory, therefore, a particular case of general accounting theory. Or, in another view, framework is assuming the quality of referential for elaborating the accountancy rules and coherence instrument rules, regulations and procedures of accounting. Although the usefulness of such a framework is obvious, national accounting systems do not have each such instrument. Accounting conceptual frameworks being Anglo-Saxon origin, countries that have adopted such tools are mainly the Anglo-Saxon origin ones: United States, Canada, New Zealand, Australia and the United Kingdom etc. However, attempts and achievements have occurred in countries anchored traditionally by legislative and centralized approaches in accounting. Therefore, countries which do not have such fundamental piece manifested the tendency of assimilation an internationally recognized accounting framework or arranged the development of their conceptual accounting frameworks. In this respect, we mention French draft conceptual accounting framework developed by the Standing Committee of Doctrine Accounting (SCDA), a body belonging to the Order of Chartered Accountants (OCA). The option of a national accounting system to implement a conceptual accounting framework raises some contradictory issues, for example, in our country antagonistic tendencies were registered between the concepts defined by the IASB Framework and the European Accounting Directives. In Romania’s case there should be taken into consideration the context given by national-European-international report in terms of building a national accounting system able to meet domestic and international needs. Designing a national accounting system represents a complex strategic political process, taking into account the geography of international accounting and particular interests of each country.

3. Joined conceptual framework IASB-FASB. Past, present and future
IASB cooperates with national accounting normalization body, of which an important role in the process of harmonization and convergence is attributed to the American accounting normalization body, the Financial Accounting Standards Board (FASB),
because the convergence between international standards (IFRS/IAS) and the American ones (U.S.- GAAP), and also to the development of an unique conceptual framework, is perhaps the most important and complex process of contemporary accounting development.

3.1 Conceptual framework IASB-FASB. Initial joint project

It is known that IASB and FASB, bodies with an essential role in the process if accounting standards, have signed an agreement of jointly achieve a common conceptual accounting framework. In fact, the project launched by the two international standardization bodies did not involve the complete rebuilding of conceptual framework as reference accountancy matrix, but aimed a series of aspects such as:

- solving by means of this joint framework of common current issues occurring at the level of financial reporting process, both nationally and internationally;
- updating of conceptual framework in some of its architectural elements this aspect being also imposed by considerable seniority of the two documents (the international and the American one);
- improving and redefining certain concepts, where appropriate;
- implementation of concepts firstly applicable to private sector economic operators and secondly, to other private entities from other sectors;
- integrating relatively new concepts emerged in standards, such as fair value.

Thus, in 2005, the project of modernization of the conceptual framework is launched, project structured on eight phases, as follows:

- Phase A: Objective and qualitative characteristics;
- Phase B: Elements and recognition;
- Phase C: Measurement;
- Phase D: Reporting entity;
- Phase E: Presentation and disclosure;
- Phase F: Purpose and status;
- Phase G: Application to not-for-profit entities;
- Phase H: Remaining issues.

Completing the common conceptual framework, namely the completion of the eight phases, was originally scheduled for 2010. However, lively debates generated by the nature and volume of existing differences, the large number of opinions and requests received for each phase, very tight schedule of the two normalization bodies, the need to complete other more urgent convergence projects, all these lead, firstly, to postponing the data proposed for completion of certain phases, respectively postponing the project deadline itself. This project was suspended in 2012.

Conceptual Framework (2010) is therefore the result of the current process of updating the general framework of the IASB and the process of harmonizing its provisions with those of the American general one issued by FASB - Financial Accounting Standards Board.

Conceptual Framework version from 2010 contains the first two chapters modified that IASB published (Chapters 1 and 3), as a result of the first stage of the joint IASB - FASB regarding the accounting normalization linchpin, as follows:

- Chapter 1 – The objective of general purpose financial reporting;
- Chapter 3 – Qualitative characteristics of useful financial information.

Regarding the other two chapters, we mention that:

- Chapter 2 – Reporting entity: it is not finalized, but will treat the concept of reporting entity;

General conceptual framework deals:
- the objective of financial reporting;
- qualitative characteristics of useful financial information;
- definition, recognition and measurement of structures on which financial statements are prepared; and
- concepts of capital and capital maintenance (IASB, 2011, IFRSs).

As it can be noticed, the new Conceptual Framework establishes a general purpose for financial reporting, not only for financial statements, as in the case of 1989 version. This objective also represents the basis of the new framework, its other objectives (reporting entity concept, the qualitative characteristics of useful financial information and their constraints, elements of financial statements, recognition, measurement, presentation and disclosure) arising logically from this main objective.

The overall objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in the decisions they take on the entity providing resources, decisions involving: buying, selling, or holding of equity and debt and providing or settling loans or other forms of credit (IASB, 2011, IFRSs).

Therefore, decisions factors new framework focus on are: existing and potential investors, lenders and other creditors.

General purpose financial reports will try to cover as much of the information needs of a wide range of users as follows:
- the main users (corresponding to the following categories of users mentioned in the conceptual framework from 1989 version: present and potential investors, employees, creditors, suppliers, other financial creditors and, subsequent, councillors in discussions concerning investors needs):
  - existing and potential investors;
  - lenders and other creditors;
- management of reporting entity;
- settlement bodies and members of the public.

In connection to the objective related to information on economic resources of a reporting entity, concerning high claims against the entity and the changes of resources and claims in Conceptual framework (2010), we mention the following:
- the presence of general purpose financial reports information on:
  - reporting entity’s economic resources and claims over the reporting entity (financial position);
  - effects of transactions and other events that change the economic resources and claims over the reporting entity (financial performance);
- the importance of higher financial performance information (represented by the overall outcome, profit or loss or similar), of the importance given to information about the financial position;
- accrual accounting offers positions both on the financial position and financial performance;
- the cash flows of a period also provide information on financial performance.

Qualitative characteristics on financial useful information described by Conceptual framework (2010) are structured on two main categories:
- fundamental qualitative characteristics:
  - relevance;
  - faithful representation: Framework 1989 used the term reliability, in order to describe what we call exact representation, according to Framework (2010);
amplifying qualitative characteristics:
- comparability;
- verifiability;
- opportunity;
- intelligibility.

The ranking above is based on the premise that financial information, that do not comply the two fundamental characteristics, are not useful and cannot be made more useful, even though they pass the test of the four qualitative characteristics less important (the amplifying ones).

Thus, we may mention that the new version of Framework kept unchanged certain components of Framework (1989), some of the chapters not bearing yet changes, but introduces important changes concerning:

- objective reporting/financial statements;
- systematization of the users’; the new framework doesn’t bring details on the categories of potential users (investors, employees, financial creditors, suppliers and other trade creditors, customers, state and public bodies, public) or their accountant information necessities (Obert, 2011);
- the importance degree of information concerning performance, respectively financial position;
- structure, systematic and qualitative characteristics of useful information:
  - concept of credibility is replaced by true representation one;
  - the prevalence of economic on juridical, prudence and verifiability, conditions associated to credibility in the older framework, are no longer considered characteristics for accurate representation;
  - the conditions that accounting information must fulfill in order to respond to accurate representation goal are: to be complete, neutral and free from material errors;
  - prudence was eliminated, due to its contradictory position in relation to neutrality;
- concept “accrual accounting” is no longer included in “basis assumptions” paragraph.

### 3.2 Comprehensive conceptual framework of IASB. Subsequent individual project

Year 2012 represented, in fact, the reactivation of IASB project that aimed the Framework, via another project that imposed three major changes:
- the new project is no longer joint with FASB, but one belonging only to IASB;
- the new project has less ambitious goals, the purpose is no longer represented by substantial revision of the conceptual framework, but by approaching those interest zones/phases that were not yet approached or those with significant deficiencies;
- the new project does no longer address to preliminary projects interest areas (DP – Discussion Paper) distinct, but in a single DP.

In conclusion, the initial project of jointly achieving by the IASB and FASB of a common conceptual framework is suspended and replaced by individual project of the IASB to achieve a comprehensive conceptual framework. Thus, in September 2012, the IASB decided that the new project should focus primarily on: elements of financial statements, evaluation, reporting entity, presentation and publication. And the aim is to achieve a single preliminary draft (DP - Discussion Paper) covering all
areas/phases mentioned above, and no preliminary draft for each of the areas of interest/project phases, as was done until 2012. Therefore, in July 2013 the revised draft - DP/2013/1 is published “A Review of the Conceptual Framework for Financial Reporting”, DP open for comment until 14th of January 2014. This project contains proposals to revise and amend certain areas of interest, where it is considered necessary (see Table 1 and Table 2). Such proposals are:

- review the definitions of asset and liability;
- introduction guidance on recognition and derecognition treatment;
- the distinction between equity and debt;
- evaluation;
- clarify the aim and purpose by other elements of comprehensive income;
- establish a framework for the presentation and disclosure (IASB, 2013).

After receiving comments, the IASB intends to publish revised draft (Exposure Draft - ED) in the third quarter of 2014 and complete new conceptual framework by September 2015 (Deloitte, 2013).

Table 1 Structure and stage for projects concerning the Accounting Conceptual Framework

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<tr>
<td>B: Elements and recognition</td>
<td>Incomplete: discontinued in 2012, when the original project was suspended and replaced; many discussions, DP and EP planned, but unissued</td>
<td><strong>2. Elements of financial statements</strong> B. Reporting entity</td>
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<tr>
<td>C: Measurement</td>
<td>Incomplete: discontinued in 2012, when the original project was suspended and replaced; many discussions, DP and EP planned, but unissued</td>
<td><strong>3. Additional recommendations to define the asset and liability</strong> C. The distinction between debts and equity instruments</td>
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<tr>
<td>D: Reporting entity</td>
<td>Incomplete: discontinued in 2012, when the original project was suspended and replaced; DP - May</td>
<td><strong>4. Recognition and derecognition</strong> D. Effect of strict duty on various classes of instruments</td>
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<td>Section number</td>
<td>Issues of content</td>
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<tr>
<td><strong>Section 1</strong></td>
<td>provides some background information, describes the purpose framework - support of IASB in the development and revision of IFRS, requires motivation and justification in the case that a new or revised statement of IASB does not matches the conceptual framework;</td>
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<td><strong>Section 2</strong></td>
<td>clarifies the definitions of assets and liabilities, but also contains other, those associated to revenues, expenditures, receipts, payments etc.; the new conceptual framework will no longer refer to inflows and outflows of expected economic benefits but only to basic resource or obligation; also, the new project deleted from the definitions of these elements the concept of probability;</td>
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<td><strong>Section 3</strong></td>
<td>presents additional guidance on the definitions of assets and liabilities, especially for cases that have raised some issues in the past; special emphasis is put on connection between the concept of current obligation and debt;</td>
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### Section 4

Exhibit recognitions requirements/conditions of assets and liabilities, the new framework will additionally provide derecognition conditions, as recommends elimination from balance sheet of those structures that no longer meet the requirements for recognition;

### Section 5

Addresses a number of issues regarding equity, further defined as a residual interest, although IASB intends to improve the definition; other aspects of capital items are concerned, revaluation, compliance or non-compliance with certain classes of items in the category of capital;

### Section 6

Examine more closely the measurement, describes the objectives of each category/assessment methods, and how we can identify the most appropriate method of assessment;

### Section 7

Contains a detailed stronger primary purpose financial statements and explanatory notes, also being presented the relationship between them; section without corresponding in the conceptual framework;

### Section 8

Mainly approaches the distinction between profit, loss and other comprehensive income, a definition of these concepts not being included in the conceptual framework; all income and expenses will be presented in profit or loss account, with the exception of the revaluation of assets and liabilities, when they will be reflected on other comprehensive income elements results;

### Section 9

Presents a wide variety of problems, from the chapters concerning objective and qualitative characteristics, that remain unchanged, until concepts such as continuity, maintenance of capital that can be reconsidered in the case of launching a hyperinflation project.


### Conclusion

The main motivation behind the summarized approach in this paper of the project of creating a Comprehensive conceptual framework of the IASB, lies primarily in the fact that this project compared, to other projects of the IASB, has a highly importance for present, but especially for the future of financial reporting at international, European, and national level. Even if present paper exhibited only few essential aspects of this very ample project, we hope we have succeeded at least to infer that the future development of the Conceptual Framework for Financial Reporting, namely the establishment of a Single conceptual framework, will represent perhaps the most important step in future international accounting.

### References


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