The Conceptual Framework- the International Experience

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David Cairns

Senior Visiting Fellow, London School of Economics and Political Science
Director, David Cairns: International Financial Reporting
Secretary-General, International Accounting Standards Committee (1985 to 1994)

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Address for correspondence

David Cairns
International Financial Reporting
North Lea House
66 Northfield End
Henley-on-Thames
RG9 2JN
United Kingdom

Telephone +44 1491 412444
Fax +44 1491 411811
E-mail david@cairns.co.uk

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Introduction

The International Accounting Standards Committee developed its *Framework for the Preparation and Presentation of Financial Statements* in the late 1980s although many of the framework's concepts had been foreshadowed in the earlier work of the IASC. Subsequently, the IASC has used its framework increasingly in the revision of existing IASs and the development of new IASs.

The IASC's framework was influenced by, and is very similar to, the written explicit frameworks adopted in Australia, Canada and the United States. The United Kingdom has based its 1999 statement of principles on the IASC's framework as did the United Nations ISAR group ten years earlier. During the development of its framework the IASC also considered the unwritten implicit frameworks underpinning accounting in continental Europe, Japan and elsewhere.

The IASC has also used its framework in its work with national standard setting bodies. The first IASC conference of standard setting bodies in 1991, organised in conjunction with the FASB and FEE, debated the objectives and concepts of financial reporting. The formation of the group of standard setting bodies known as G4+1 followed this conference; each group member has adopted a conceptual framework which is similar to the IASC framework. Following the 1991 conference FEE considered further the explicit and implicit frameworks in Europe.

The IASC's Early Approach to the Objectives and Concepts of Financial Reporting

The International Accounting Standards Committee (IASC), as many national standard setting bodies, focused its initial efforts on the development of a core set of accounting standards which dealt with practical issues rather than with the development of a conceptual framework. In fact, the IASC had approved 26 International Accounting Standards (IASs) by the time it began work at the end of 1986 on its *Framework for the Preparation and Presentation of Financial Statements* ('framework').

The lack of a written conceptual framework during the IASC's first 15 years did not mean, however, that early IASs lacked a conceptual underpinning. To the contrary, in its first pronouncements, the IASC set out three ideas which, while not described as concepts, formed the basis of its work:

- IASs should apply to the published financial statements of business enterprises;
- these financial statements should provide information to a wide range of users; and
- these financial statements should provide information which helps users with their evaluations and decisions.

These three concepts later appeared in the IASC's framework.

The focus on published financial statements was included in the agreement which established the IASC, the *Preface to International Accounting Standards* and IAS 1 [1974] *Disclosure of Accounting Policies*. The IASC recognised that information, including financial statements, which was prepared for management's own use 'might be prepared in a number of different

ways best suited for internal management purposes'[1]. Therefore the IASC did not seek to regulate or provide guidance on management information although there has been nothing to stop management from choosing to use IASs developed for published financial statements in its internal information[2].

The focus on business enterprises was also reflected in the speeches and articles of many early participants in the work of the IASC. For example, Benson, Cummings, Kawaguchi and Nash refer to the use of IASs by companies which raised capital on international markets or which traded or had operations in foreign countries. Much later there were suggestions that the IASC should develop standards for non-business activities including those in the public sector. The IASC has resisted such calls, deciding instead to support the endeavours of IFAC's public sector committee[3]. The focus on business enterprises influenced the choice of topics in the IASC's work programme; it also simplified IASs and allowed the IASC to concentrate its efforts on where it could achieve the most progress.

The focus on a wide range of users of financial statements has been reflecetd in many IASC pronouncements and actions. IAS 1 [1974] identified the following users of published financial statements: shareholders and creditors (present and potential); employees; suppliers; customers; trades unions; financial analysts; statisticians; economists and taxing and regulatory authorities[4]. Similarly, IAS 3 referred to present and potential shareholders, employees, customers and creditors. When in 1981, the IASC formed its consultative group, it included international organisations of financial analysts, stock exchanges and trades unions, as well as development agencies, as representatives of different users of financial statements. In later years, securities commissions, bankers and lawyers joined the group, again primarily as representatives of users of financial statements. In 1989, the IASC identified a similar group of users in its framework as it had, 15 years earlier, in IAS 1 [1974].

In IAS 1 [1974], the IASC also adopted the same decision-usefulness concept for the objective of financial statements in IAS 1 which later appeared in the framework. IAS 1 [1974] stated: 'The users of financial statements require them as part of the information needed, among other purposes, for making evaluations and financial decisions'[5]. The framework states that the objective of financial statements is 'to provide information … that is useful to a wide range of users in making economic decisions'[6]. The similarities between these objectives are obvious; the differences are insignificant. Furthermore, both IAS 1 [1974] and the framework recognise that financial statements are only part of the information available to, and used by, users in making decisions and that users will also use other financial and non-financial information in making their evaluations and decisions.

The focus from 1974 onwards on decision-usefulness and the needs of external users had several consequences for the IASC. It meant, for example, that the IASC favoured such notions as fair presentation, full disclosure and transparency rather than secrecy and the use of smoothing devices and other distortions of performance and financial position. It also meant that the IASC was not constrained by national accounting requirements which fell short of providing useful information for external users or which had some other purpose such as the determination of taxation liabilities and distributable profits.

The focus on decision usefulness and the commitment to fair presentation influenced the choice of accounting treatments in IASs. For example, as Burggraaff points out, the thrust of IAS 2 [1975] was directed at getting rid of accounting treatments which, by increasing or decreasing stock [inventory] values at will, tailor profits according to what is suitable to management. IAS 10 [1978] banned the recognition of accruals for 'general or unspecified business risks'[7]. Perhaps even more significantly, the IASC argued that the financial statements of banks could not present a true and fair view as to financial position or results of

operations if there were undisclosed overstatements of liabilities, undisclosed understatements of assets or undisclosed accruals of amounts for general or unspecified banking risks[8].
The focus on decision usefulness also influenced the content of IAS financial statements. For example, IAS 3 required the presentation of consolidated financial statements because certain users of the financial statements were 'concerned with the fortunes of the entire group' and needed 'to be informed about the results of operations and the financial position of the group as a whole'[9]. IAS 5 argued that users cannot make reliable judgements unless the financial statements were clear and understandable. It continued: 'The information needed for this purpose will often extend beyond the minimum necessary to meet the requirements of the local law or regulatory authorities'[10]. IAS 14 [1981] asserted that 'users of financial statements need segment information to assess the prospects and risks of a diversified enterprise'[11].

While the three concepts influenced the IASC's work in the 1970s, there were a few calls for the IASC to develop a conceptual framework. Hayes observed:

> "Some critics view the IASC's failure to identify and define the worldwide objectives of financial statements as a major failing that impedes progress. Who are financial statements intended to serve? In the United States, the investor and creditor are viewed as the primary audience for financial statements. Other countries give significant weight to the needs of labour unions, employees, government planners, and taxing authorities. Some countries, particularly developing countries, perceive the need for economic data for macroeconomic planning and social purposes as a major factor that should influence the thrust of accounting standards. Generally speaking, the IASC has been attempting to harmonise existing national standards - which presumably have been developed with some objectives in mind - rather than to develop totally new standards as if starting from a clean slate. So at this stage, failure to more specifically identify objectives of financial statements has not been a major obstacle to progress. Nevertheless, there is no doubt that perceptions of different objectives of financial statements by different countries have forced the IASC to accept some flexibility in its standards that might not be required if objectives were better defined."

The IASC believed, however, that its constituency was far more likely to criticise it for gaps in its standards rather than its failure to develop a conceptual framework. Therefore, it was not until the early 1980s that the first seeds of the framework were sown.

The IASC's Building Block Projects

In November 1982, the IASC added to its work programme a project on 'aspects of the objectives of financial statements'[12]. However, the IASC did not intend at that time to prepare an international conceptual framework.[13]. Instead, the IASC intended that the new project should be 'a limited study, examining the separate roles and needs of the various publics to which IASs are addressed'[14]. The steering committee appointed for this project was chaired by Ayo Oni, who represented Nigeria on the board. Its other members were drawn from Australia, Brazil and the then Yugoslavia.

The IASC consultative group and the board discussed a point outline on the objectives of financial statements in March 1984. The response to the outline was positive with the result that the steering committee was asked to prepare a first draft on the proposed statement. The board also decided that the statement would not be an IAS but would rather 'lie somewhere between the *Preface to International Accounting Standards* and IAS 1'. However, the position of the proposed statement continued to trouble the IASC for a further two years.

In October 1984, the board and the IASC consultative group considered a preliminary exposure draft on the objectives of financial statements. By this time, the IASC had also started to reconsider IAS 1 [1974] as part of its policy of reviewing IASs once they had been in force for five years. The board decided to integrate the objectives project with the review of IAS 1 [1974]. Prior to the board's discussions, a member of the consultative group suggested that the resulting statement 'might be the first of a new series of concept statements from the IASC'.

In June 1985, the board approved a preliminary exposure draft *The Objectives of General Purpose Financial Statements and Selection and Disclosure of Accounting Policies* for circulation for comment to the IASC's member bodies[15]. The draft identified the objectives and qualitative characteristics of general purpose financial statements and linked them to decisions about the selection and disclosure of accounting policies[16]. The comments of the member bodies were generally favourable with the result that the steering committee was able to prepare a draft exposure draft for consideration by the board in June 1986.

While the work on objectives was progressing, the IASC added to its work programme separate projects on liabilities, owners' equity, and assets and expenses. These so-called 'building block' projects had two purposes. They were intended to provide general guidance on the definitions, recognition, measurement and disclosure of assets, liabilities, income, expenses and equity. They were also intended to fill the remaining gaps in the set of IASs. The building block 'revenue' had already been dealt with in IAS 18 although, at the time, the IASC had not seen that project as a step towards its framework.

The IASC board approved preliminary exposure drafts on both liabilities and owners' equity in March 1986. However, the development of separate drafts had created a number of problems, notably potential conflicts over the classification of certain items and the possibility of credit balances on the balance sheet which were neither equity nor liabilities. Conscious of the possibility of further conflicts in the future, the board asked for the project on assets and expenses to be accelerated so that all three projects could be co-ordinated.

In June 1986, IASC board discussed a point outline on assets and expenses. It also considered the proposed exposure draft on the objectives and accounting policies. The meeting proved to be a turning point in the development of the framework. Several members of the board continued to question whether the objectives and building block documents should take the form of IASs or some other form of statement. The board decided to review the role and form of all the documents and to consider the matter further at its meeting in November 1986.

While the IASC was deciding what to do, the American Accounting Association and Klynveld Main Goerdeler (later KPMG Peat Marwick and now KPMG) sponsored an international conference on standard setting for financial reporting. The conference, held at Princeton, New Jersey in August 1986, brought together standard setters and other policy makers from 24 jurisdictions[17], the IASC, the OECD and the United Nations Centre on Transnational Corporations. The conference addressed, among other issues, the objectives of financial statements, the role of a conceptual framework and the harmonisation of accounting standards. Anthony, Spinosa Cattela and Oni dealt with the objectives of financial statements from the perspectives of a user, a preparer and a developing country respectively. Wyatt, Stevenson and Denman considered the role of a conceptual framework from the perspectives of the USA, Australia and Canada respectively. Cairns dealt with the possibility of an international conceptual framework in his paper on the role and achievements of the IASC.

Stevenson was the only national speaker to address the possibility of an international conceptual framework. He seriously doubted such a possibility on the grounds that a conceptual framework had to be developed with regard to the circumstances of the particular standard setting agency and its constituents. Nevertheless, he applauded the efforts of the

IASC in its concepts projects, suggesting that they could prove to be some of the most important and valuable contributions of the IASC. He also urged the IASC to use the concepts projects to encourage better planning in standard setting around the world.
Many other conference participants did support some sort of international conceptual framework. As Solomons (1987) observed: ‘Perhaps one of the most striking points of agreement within the conference – stopping not far short of consensus – was about the urgent need for a more fully developed conceptual framework to guide standard setters. It was viewed not as a luxury, but as a necessity. Even though, … the FASB is not likely to do further work on its framework for several years, it seems probable that similar work in other countries, singly or collectively through the IASC, will gather momentum’. The challenge to the IASC was taken up by Cairns who reported that the IASC was giving serious consideration to combining its building block documents into a single document that ‘might meet the requirement for a core conceptual framework’.

The IASC’s Framework Project

At its meeting in November 1986, the IASC decided to develop ‘a framework for financial reporting which would stand apart from IASs but which would not bind the IASC to particular accounting treatments for individual topics’. It agreed that while the new project should incorporate the work on the four ‘building block’ projects it would not be bound by the decisions taken in those projects. The project also incorporated material on revenue derived from IAS 18 [1982].

The framework steering committee (table 1) included the chairmen of all the building block projects. Its members came from a variety of different backgrounds. There were two accountants from industry (Michael Dawson and Ron Cotton), two from big eight accounting firms (Ayo Oni and Rick Cottrell), two from other accounting firms (Francis Bastien and Giancarlo Tomasin). There was also a financial analyst (David Damant). The steering committee also benefited from the regular advice of Professor David Solomons as well as extensive staff work from Kevin Stevenson and, in particular, Warren MacGregor of the Australian Accounting Research Foundation.

Table 1 IASC Framework steering committee

Members
Michael Dawson (Canada) (chairman) former chairman of the Canadian accounting standards committee
Francis Bastien (France)
Ron Cotton (Australia) – former chairman of the IASC’s assets and expenses steering committee; subsequently replaced by David Boymal (Australia)
Rick Cottrell (South Africa) – former chairman of the liabilities steering committee
David Damant (International Co-ordinating Committee of Financial Analysts Associations)
Ayo Oni (Nigeria) – former chairman of objectives steering committee
Giancarlo Tomasin (Italy) – former chairman of equity steering committee
Technical advisors
Kevin Stevenson and Warren MacGregor (Australia) - Australian Accounting Research Foundation
John Denman (Canada) –Canadian Institute of Chartered Accountants
Segun Wallace (Nigeria) – University of Exeter
IASC staff
David Cairns – secretary-general
Brian Rutherford – assistant secretary (1986 to 1987)
Angus Thomson – research manager (1987 to 1989)

Consultant
David Solomons

In its new project the IASC was able to draw on the published concepts statements of the FASB and work in progress of the standard setting bodies in Australia and Canada. The FASB's concepts statements had been used in all the building block projects and were familiar to all members of the steering committee. Australia was contemporaneously developing its statements of accounting concepts while Canada was also developing its financial statement concepts.

The IASC also examined the concepts underlying financial reporting in Japan, continental Europe and a range of developing and newly industrialised countries. While none of these countries had published a conceptual framework in a similar form to that of the FASB or that proposed by Canada, Australia and the IASC, there were clearly concepts or principles underpinning their accounting requirements. For example, while Germany had not, and has not, published a conceptual framework, it clearly had some concepts underlying its accounting laws and other regulations as Ballweiser and Kuhner later showed.

The steering committee settled quickly on the structure of its framework. It would be a single document which would have separate sections dealing with the objectives and users of financial statements, the qualitative characteristics of those financial statements, the definitions of the balance sheet and income statement elements, the recognition of the elements and the measurement of those elements. Agreement on the content of each section took longer. The steering committee held a series of meetings during 1987 before approving a draft exposure draft for submission to the IASC board in March 1988.

In approving the exposure draft for publication, the board made one important change to its earlier decisions and the steering committee's draft. It replaced the broad idea of 'a framework for financial reporting' with the narrower notion of 'a framework for financial statements'. Some board members argued that the IASC was constrained by its constitution to deal only with financial statements[18] and not with broader issue of financial reporting. This legalistic argument probably hid larger concerns about the consequences of the IASC extending both the project and its other work into new areas[19].

The exposure draft of the framework was published in April 1988. The timing was significant. The board had just begun its consideration of the comparability proposals (see below). The IASC's chairman Georges Barthes commented: 'The framework will play a major part in deciding which alternative accounting treatments currently allowed in some IASs should be retained.'[20]

The comments on the exposure draft were generally supportive of both the need for, and the content of, the framework and there was no need for major changes when the steering committee and the board came to reconsider the draft framework in the light of the comments. The IASC unanimously approved the *Framework for the Preparation and Presentation of Financial Statements* in April 1989.

The Framework for the Preparation and Presentation of Financial Statements

Appendix 1 summaries the main concepts in the framework. A more detailed explanation can be found in Cairns (1999a).

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The framework retains the decision usefulness approach to the objectives of financial statements that was included in IAS 1 [1974]. However, two questions arose during the development of the framework on the objectives of financial statements:

- Should the objective of financial statements should be to show the results of the stewardship of management, or the accountability of management for the resources entrusted to it?
- Should the objective of financial statements should be to show a true and fair view of financial position, performance and changes in financial position?

The IASC answered the first question by concluding that those users who wish to assess the stewardship or accountability of management do so in order to decide whether to re-appoint or replace the management or to make some other decisions about their interest in the enterprise. They are not interested in stewardship or accountability for its own sake. In his 1988 study for the Institute of Chartered Accountants in England and Wales, Solomons makes the same point slightly differently. He suggest that the use of financial statements for decision making 'depends on and follows from their use in assessing performance'[21].

The 'true and fair' question first arose during the project on the objectives of financial statements. While some members of the IASC board were familiar with the notion of a 'true and fair view' and might have supported a 'true and fair' objective, others (particularly the North Americans) argued that they did not understand what was meant by a 'true and fair view'. The phrase had not been used in IASs or other IASC pronouncements although it did appear in the IASC's 1980 discussion paper on the financial statements of banks.

The IASC concluded that the objective of financial statements should not be expressed in terms of a true and fair view. Instead, the framework asserts that the application of the qualitative characteristics in the framework and appropriate accounting standards would normally result in financial statements that convey what is generally understood by a true and fair view[22]. This true and fair question reappeared during development of IAS 1 (revised) but the board again decided against using the words although it did introduce the overriding concept of 'fair presentation'[23].

The framework also retains the focus in IAS 1 [1974] on the common needs of a variety of users of financial statements (table 2). The framework makes clear that financial statements should be useful to a 'wide range of users'. Furthermore, it does not rank those users in order of priority although some commentators have asserted, wrongly, that the IASC framework focuses primarily on the needs of investors. What the framework does say is that the provision of information that meets the needs of the providers of risk capital will also meet most of the needs of other users that financial statements can satisfy[24]. If users other than providers of risk capital have other needs which can be met by financial statements, the IASC would consider addressing those needs.

Table 2 The users of financial statements

IAS 1(1974) *Disclosure of Accounting Policies*	*Framework for the Preparation and Presentation of Financial Statements*
Shareholders, financial analysts	Investors and their advisors
Creditors and suppliers	Lenders, suppliers and other trade creditors
Employees, trades unions	Employees and their representative groups
Customers	Customers
Statisticians, economists and taxing and	Governments and their agencies

regulatory authorities	
	The public

The qualitative characteristics in the framework caused less debate although there was some disagreement about the status of prudence in the framework. The framework deals with prudence under the heading of reliability and prudence is secondary to neutrality. As a result, prudence is defined as 'the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.'[25]

The framework's approach to prudence is the same as that taken in earlier IASs. The exercise of prudence does not allow the creation of hidden reserves or excessive provisions or the deliberate understatement of assets or the deliberate overstatement of liabilities. The IASC's approach was also supported by the Jenkins committee in the United States which found that users favour 'prudence in evaluating uncertain outcomes and amounts, not the creation of arbitrary reserves'[26].

While the framework and many IASs take a consistent approach to prudence, IAS 1 (revised) appears to increase the status of prudence albeit in the fairly limited circumstances in which IASs do not deal with a particular accounting issue. In such circumstances, IAS 1 (revised) requires that 'management should develop [accounting] policies to ensure that the financial statements provide information that is …. reliable in that they … are prudent …'[27]. IAS 1 (revised) contains no guidance on this instruction. It would be unfortunate if it was interpreted as permitting the use of accounting policies which allow, or financial statements which include, understated assets and income or overstated liabilities and expenses.

The framework's approach to the definition of assets, liabilities, income and expenses also led to some disagreements. The framework uses the usual convention of defining income and expenses by reference to the definitions of assets and liabilities. Some have inferred that this approach implies that the IASC attaches more importance to the balance sheet. This is not the case. Rather, the IASC believed (and still believes) that it is impossible to define income and expenses without including in those definitions the definitions of assets and liabilities –none of the critics of the IASC's approach or the similar approach adopted by some national standard setting bodies have proposed operational definitions of income and expenses which are independent of the definitions of assets and liabilities.

The IASC's approach has the added advantage that it reflects the way that accountants do their work. For example, an accountant determines the cost of sales of a manufacturing enterprise after determining the balance sheet carrying amounts of inventories, payables and receivables, all of which are balance sheet items. Cost of sales cannot be determined reliably in any other way although critics of this approach seem to be suggesting that it can be determined by reference to the transactions of an enterprise without measuring inventories, receivables and payables. Such an approach would allow enterprises to report profits which suited management, a notion which the IASC has opposed since its inception.

The sections of the framework dealing with measurement and capital maintenance are the least satisfactory. However, the IASC is not alone in being unable to specify appropriate measurement bases and concepts of capital maintenance. A minority of members of the IASC board did argue that current cost accounting was the only way in which the objectives of financial statements, as set out in the framework, could be met. Such a view was not widely held or, insofar as it was held, members concluded that such an approach would not have won the necessary support both within the IASC and from its constituency.

The IASC concluded that it should not prescribe a particular measurement basis except in highly inflationary economies. Subsequently, however, the IASC has allowed less flexibility in IASs in the choice of measurement bases, particularly for financial assets and financial liabilities. It is highly unlikely, however, that the IASC will seek to remove the choice between cost and fair value for property, plant and equipment (other than, perhaps, for investment properties) or between historical cost and current cost for inventories.

The framework was approved and published in 1989 and it has not subsequently been reviewed or revised. The IASC has acknowledged that it may reconsider some aspects of the framework in the future and it has been suggested that the IASC should develop the measurement aspects of its framework in conjunction with national standard setting bodies and in the context of particular types of businesses. Speaking at the 1991 conference of standard setting bodies, Tweedie also identified the measurement of assets, liabilities and income as a key area which required further attention in all the written frameworks[28]. However, the debates over financial instruments and the IASC's project on investment properties suggest that there is still considerable disagreement among standard setters as well as preparers and users of financial statements about the relevance and reliability of fair values or other measures of current value.

The IASC's Use of its Framework in Standard Setting

The framework does not override the requirements of IASs[29] and there is no requirement for an enterprise to depart from the requirements of an IAS in order to comply with the framework. Compliance with the framework is also not necessarily a reason to depart from an IAS in order to achieve fair presentation in accordance with IAS 1 (revised). The framework also acknowledges that in a limited number of cases there may be a conflict between the framework and an IAS and that in such cases the requirements of the IAS must prevail[30]. Nevertheless, one of the purposes of the framework is to assist the IASC board with the development and review of IASs[31].

Initially the IASC showed some reluctance to do this. The reluctance focused more on the definitions of, and the recognition criteria for, assets, liabilities, income and expenses rather than the qualitative characteristics. Somewhat surprisingly the representatives of Canada, the United Kingdom and the United States were often more reluctant to apply the framework definitions and recognition criteria than their counterparts from countries which lacked a written framework or which had different accounting traditions. Australian representatives were, however, zealous supporters of the framework in developing and revising IASs. The comparability, improvements and financial instruments projects are good examples of the IASC's reluctance and they are examined in more detail below.

The turning point in the IASC's support for the use of its own framework was probably a board discussion in June 1992 on the IASC's long-term plans and priorities. Many board representatives argued that the IASC should use its framework rather than develop 'opportunistic standards'. However, a minority (including the chairman of the improvements steering committee) suggested that the framework was of little help in solving problems, would make the IASC a 'fringe body' and would be detrimental to the IASC. The majority view, however, prevailed with the result that the definitions of assets, liabilities, income and expenses, together with the recognition criteria, in the framework have played an increasingly important part in the work of the IASC.

In the 1990s, the IASC has made extensive use of the framework in its projects on intangible assets, income taxes, provisions and agriculture as well as in its post-1994 work on financial instruments. Both the provisions and financial instruments projects are examined in more detail below. The framework is also used by the standing interpretations committee (SIC) as one of its criteria for the evaluation of issues[32]. Furthermore, in its review of the IASC's

structure, the strategy working party emphasised the importance of using the framework to ensure that IASs are of 'high quality and require transparent and comparable information' for participants in capital markets[33].

The Comparability Project (1987 to 1990)

The comparability project was the IASC's first opportunity to use the framework in the revision of IASs. The objective of the comparability project was to eliminate all but one accounting treatment when the different treatments permitted by the then existing IASs represented a free choice for like transactions and events[34]. The choices often implied the use of different definitions of, or recognition criteria for, assets and liabilities. Some choices, however, allowed the use of alternative measurement bases.

While the IASC's then chairman, George Barthes had felt that the framework would play a major part in deciding which of the alternative accounting treatments should be retained[35], the comparability steering committee was less enthusiastic about the framework. It identified four criteria for deciding which alternative accounting treatments should be required or preferred[36] and decided initially to attach more importance to 'current worldwide practice and trends' than to compliance with the framework.

The board shared the view of the comparability steering committee with the result that E32 concluded: '… the objective of enhancing the comparability of financial information on a timely basis is best achieved by choosing a treatment that follows current worldwide practice and trends rather than the one that conforms most closely with the definitions of, and the recognition criteria for, the elements of financial statements in the proposed framework'[37].

The preference for current practice affected a number of E32 proposals including those on development costs, property, plant and equipment, retirement benefit costs, borrowing costs and investments. For example, on development costs E32 proposed that:

- development costs should be recognised as an expense in the period in which they were incurred (preferred treatment[38]); and
- development costs may be recognised as assets when the IAS 9 [1978] criteria were met. (allowed alternative treatment[39]).

The preferred treatment was justified on the grounds that it was the 'most widely accepted practice' and because of the difficulty and subjectivity involved in deciding whether the costs met the recognition criteria for assets. The allowed alternative treatment was permitted because it was supported by the proposed framework.

On measurement issues, E32 sometimes favoured current practice while at other times it opted for the framework characteristic of relevance. On property, plant and equipment, it proposed that historical cost less depreciation should be the preferred treatment because of its wide spread use[40]. It allowed the use revaluations because some believed that they provided more relevant information than historical costs[41]. In contrast, E32 proposed that investments classified as current assets should be carried at market value because these values were highly relevant to the needs of users of financial statements[42]. It allowed the use of the lower cost of market value because many countries did not then permit the use of values in excess of historical cost[43].

The comment letters and the results of the worldwide consultations on the E32 proposals persuaded the IASC that it ought to attach a much higher level of importance to conformity with the framework. Therefore the June 1990 *Statement of Intent on the Comparability of Financial Statements* included three substantive changes to the proposals in E32. On development costs and borrowing costs the IASC brought its proposals into line with the asset

recognition criteria in the framework. On inventories the IASC was persuaded that information prepared on a LIFO basis was not relevant to the users of financial statements[44].

The statement of intent's approach on development costs was included in the revised IAS 9 approved in November 1993 and has been retained in IAS 38. However, the IASC was eventually forced to abandon its plan to ban the use of LIFO in IAS financial statements[45].

Improvements Project (1990 to 1993)

The IASC had a further opportunity to use the framework in the improvements project which was started in 1990. The purpose of this project[46] was to:

- implement the changes agreed in the *Statement of Intent on the Comparability of Financial Statements*; and
- revise existing IASs to ensure that they were sufficiently detailed and complete and contained adequate disclosure requirements to meet the needs of capital markets and the international business community.

As part of the project, the IASC also decided to revise all IASs into a new format and style so that, among other things, the terminology conformed with that used in the framework[47]. More detailed information on the improvements project can be found in Cairns (1999a).

While the *Statement of Intent on the Comparability of Financial Statements* attached more weight to the framework than had been the case in E32, the balance shifted back towards current practice during the improvements project. A number of members of the improvements steering committee, including the Canadian chairman, were sceptical about the value of the framework. The United Kingdom's member (Ron Paterson) was an ardent critic of the framework and later led his firm's attack on the UK's statement of principles which was itself based on the IASC's framework[48].

The decision to conform the terminology in the revised IASs with that used in the framework led to a number of difficulties. It was surprisingly controversial in the context of the revisions to IAS 18 on revenue recognition. Many members of the improvements steering committee argued that the framework was 'inappropriate' in a standard on revenue recognition, although this view was overturned by the board[49]. In contrast, the improvements steering committee did make major changes to the language in IAS 4 and IAS 16 to bring it into line with the framework.

The improvements steering committee had particular difficulty with paragraph 87 of the framework which states that an item that fails to meet the recognition criteria at one point in time may qualify for recognition at a later date as a result of subsequent circumstances or events. The committee questioned whether costs which had been written off as an expense in the period in which they had been incurred could subsequently be reinstated as an asset if the asset recognition criteria were met in that later period. For example, can development costs which are written off as an expense when incurred be reinstated as an asset in a later period when the technical and commercial feasibility of the relevant product or process is proved?

Some members of the committee felt that a ban on reinstatement conflicted with the framework while others argued that once costs had been recognised as an expense they should not be reconsidered for recognition as an asset. The board was unable to reach a consensus on the issue with the result that paragraph 87 of the framework is probably applied inconsistently in different IASs. This issue will undoubtedly be reconsidered in any review of the framework.

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Financial instruments

The financial instruments project provided the IASC with the opportunity to use the framework definitions of, and recognition criteria for, assets and liabilities. Once again, the level of support for the framework varied. The definitions of financial assets, financial liabilities and equity instruments were based on the framework definitions of assets, liabilities and equity. However, the criteria adopted for the recognition and de-recognition of financial assets and financial liabilities in both E40 and E48 were based on the notion of the transfer of the risks and rewards associated with the asset or liability which, some argued, was inconsistent with the framework[50]. The transfer of risks and reward approach was particularly criticised by some national standard setting bodies at the June 1994 meeting with the IASC board[51].

Following its November 1994 decision to split the financial instruments project, the IASC appointed a new steering committee to deal with recognition and measurement issues. The new committee was much more supportive of the framework. The committee's March 1997 discussion paper *Accounting for Financial Assets and Financial Liabilities* proposed that the recognition and derecognition of financial assets and financial liabilities should be determined by reference to the transfer of control over the right to economic benefits rather than by the transfer of risks and rewards. The discussion paper also urged much greater use of fair values.

The joint working group which is preparing a comprehensive exposure draft based on the 1997 discussion paper is highly likely to continue with the emphasis on the use of framework concepts. In the meantime, IAS 39 has also retained this transfer of control approach to the recognition and derecognition of financial assets and financial liabilities.

Provisions

The IASC's recent project on provisions demonstrates more clearly than any other project the IASC's current high level of commitment to the use of its framework. The IASC began the project in March 1996 working jointly with the United Kingdom's Accounting Standards Board (ASB) with the ASB's chairman, Sir David Tweedie, as chairman of the IASC steering committee. At the same time, the ASB was working on its *Statement of Principles for Financial Reporting* which it had based on the IASC's framework. The topic of provisions had also been addressed in a G4+1 discussion paper which used the IASC's framework to put forward proposals on both the definition and the recognition of provisions.

A number of early IASs had referred to the existence of, but did not define, provisions. For example, IAS 1 [1974] included 'liabilities and provisions' among the headings for groups of issues for which different accounting policies existed (IAS 1 [1974], 14); all the examples (except for commitments) were items which would now be recognised as liabilities. Some IASs used the term 'provision' when dealing with downward adjustments to the measurement of assets (as, for example, is the case with 'provisions for loan losses' in IAS 30).

The framework took the position that the only provisions which should be permitted in IAS financial statements were liabilities which could be measured only by using a substantial degree of estimation[52]. Provisions which did not satisfy the definition of a liability, or which did not satisfy the requirements for the write-down of an asset, should be treated as appropriations of retained earnings or some other part of equity. In particular, provisions which enabled management to smooth profits were not permitted; indeed such provisions had never been permitted in IAS financial statements.

The joint project between the IASC and the United Kingdom's ASB resulted in the approval of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and FRS 12 *Provisions, Contingent Liabilities and Contingent Assets*. Both standards use the framework definition of a liability to define a provision and the framework recognition criteria for a liability to determine whether a provision should be recognised as a liability on the balance sheet. Items which do not meet definition and provisions which do not meet the recognition criteria should not be recognised as provisions on the balance sheet.

Some commentators on the exposure draft (E59) suggested that the IASC should have adopted a different approach. For example, Ernst & Young disagreed with the premise that provisions are liabilities and argued that the IASC should have approached the issue from the direction of expense, rather than liability, recognition[53]. Solvay disagreed with the restriction of provisions to items which met the definition of a liability; it wanted the flexibility to include 'any amounts set aside to meet costs that may arise from past or future events and that are necessary for the accounts to be reasonably prudent'[54]. Several commentators preferred the approach adopted in the EC 4th directive[55]. While the IASC considered carefully these comments, it decided to retain its framework based approach.

The IASC's Use of the Framework in Discussions with National Standard Setting Bodies

The IASC not only develops IASs, it also works generally for the improvement and harmonisation of financial reporting requirements[56]. Therefore it seeks to work closely with bodies which are responsible for setting national accounting requirements, whatever the form of those requirements and irrespective of whether the bodies are in the private sector or part of government.

In the early 1980s, the IASC instigated a programme of visits of national standard setting bodies to discuss greater harmony among national and international standards. One of the purposes of these meetings was for the IASC to persuade the national bodies to support the IASC by adopting national requirements which conformed with IASs. In some countries, conformity was easy as the then IASs allowed a number of choices of alternative accounting treatments. In other countries, conformity was more difficult as their objectives of financial reporting differed from the objectives which underpinned the work of the IASC.

On his appointment in 1987 as chairman of the IASC, Georges Barthes sought to establish direct links with national bodies as well as the European Commission. His strategy also led to the decision to hold an annual conference of standard setting bodies. The IASC believed that such a conference would help achieve the objective of greater compatability between national and international standards[57].

The FASB had earlier suggested to the IASC that the first such conference should deal with the concepts underlying financial statements, a proposal which the IASC supported. Both the IASC and the FASB recognised that the lack of agreement on objectives may impede efforts to improve and harmonise accounting requirements. They also acknowledged that different objectives may lead to different accounting concepts and, hence, to different accounting standards; conversely agreement on objectives could lead to greater convergence of accounting requirements.

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The 1991 Conference of Standard Setting Bodies

The IASC and the FASB worked with the Fédération des Experts Comptables Européens (FEE) to organise a conference of national, regional and international standard setting bodies in June 1991. The objectives of the conference were to:

- determine the need for, and the purpose of, a conceptual framework;
- exchange views and experiences about the usefulness of a conceptual framework in the setting of accounting standards; and
- assess the potential for further co-operation between national, regional and international standard setting bodies in order to further the internationalisation of accounting standards.

50 participants with direct involvement in national, regional and international standard setting attended the conference. Funding was provided by the big six accounting firms.

The conference focused on Alex Milburn's paper *Building a Better Conceptual Framework*[58] which argued: 'It is not only possible but it is essential that financial accounting have a more clearly developed conceptual framework – one that logically links modern capital-based economic theory with accounting recognition and measurement principles, and that provides a foundation for reconciling potentially conflicting national and international user interests.'

Milburn defined a conceptual framework for financial accounting as 'an inter-related structure of propositions and observations that provides logical foundation for deducing what accounting principles ought to be'. He presumed that a conceptual framework should have a normative purpose – that is, it should provide a basis for determining what accounting principles ought to be. His definition also implied that the process of developing accounting standards should be one of deduction, or reasoning forward, within a logical structure of propositions and evidence. As a result, accounting should be 'more an applied science than an art', and the conceptual framework should be 'much more than a generalisation of existing conventions and practices'.

The conference also addressed the both the explicit and the implicit conceptual frameworks which underpinned financial reporting around the world. Tweedie[59] compared the published, explicit frameworks of the IASC, Australia, Canada and the United States and the then work in progress in the United Kingdom. He concluded that the differences were minor and were more matters of emphasis rather than outright agreement.

Cairns[60] compared the IASC's framework with the unwritten, implicit frameworks in Germany, Italy, Japan, the Netherlands and Sweden. He concluded that the accountability/creditor protection model in use in some of these countries may have serious limitations when external users rely on the resulting financial statements for the purpose of making economic decisions. Arai Shiratori dealt in more detail with the framework of accounting in Japan[61]. They concluded that understanding the differences among nations is the first solid step towards international harmonisation. He urged a step by step approach which reconciled theory and practice.

The chairman (Dennis Beresford) and deputy chairman (James Leisenring) of the FASB presented a paper[62] on the FASB's conceptual framework and its use by the FASB in setting standards. The papare described ways in which the FASB's Concepts Statements had been used in particular projects both to justify a single position and conflicting positions. The paper concluded by emphasising that the intention of the Concepts Stateemnts was 'to help the FASB do its job, not to do its job for it'. The framework is a 'set of tools to help the Board in setting sound financial accounting standards and to help members of the Board's constituency not only to understand and apply those standards but also contribute significantly to their development'.

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The two days of discussions resulted in a considerable degree of consensus among those countries which used the various explicit frameworks. A number of other countries expressed doubt, however, about their ability to base accounting standards on a framework in view of their dependence on commercial and accounting systems in the law.

While the conference may not have achieved as much progress as some would have hoped for, it did lay the foundations for three developments:

- the creation of G4+1[63];
- discussions at later IASC conferences of standard setting bodies on such issues as the impact of future events on the definition and recognition of assets and liabilities; and
- a FEE study of the explicit and implicit conceptual frameworks in Europe.

G4+1

One of the most significant developments following the first conference of standard setting bodies was the formation of G4+1 in 1992/93[64]. The group's initial members were the standard setting bodies from Australia, Canada, the United Kingdom and the United States (G4) plus the IASC (+1). The initial members were later joined by the standard setting body in New Zealand. The standard setting body in the Netherlands declined an invitation to join the group.

G4+1 members share an objective of providing quality financial standards for the primary purpose of providing information useful to capital market participants. Group members also share the view that:

- financial reporting standards should be based on a conceptual framework;
- membership of the group requires acceptance of a conceptual framework which is similar to that of other members;
- seeking common solutions to financial reporting issues requires members to have the willingness and the ability to commit resources to the resolution of those issues within the context of a conceptual framework.

The early meetings of G4+1 focused on the effect of future events in preparing current accounting information. A draft study was considered at the 1993 IASC conference of standard setting bodies and the final discussion paper, *Future Events – A Conceptual Study of Their Significance for Recognition and Measurement*, was published in 1994. Later discussion papers and invitations to comments have dealt with a variety of issues. The group was disbanded following the restructuring of the IASC in 2001.

G4+1 is not the only group of standard setters to seek common solutions to accounting issues. Representatives of the Australian and New Zealand standard setting bodies attend each others meetings as part of the economic co-operation between the two countries. The standard setting bodies in Australia, New Zealand, South Africa and the United Kingdom along with the IASC also meet regularly because they share a common interest in revaluation accounting. These groups are, however, for the most part variations on the G4+1 group and share similar frameworks (South Africa adopted the IASC's framework in 1990).

There are several other groups which do not have the same link to G4+1 and do not share conceptual frameworks. Most notably, the governments of the then EC member states developed the 4th and 7th directives as a means of both improving and harmonising company and consolidated accounts in the European Community. Since 1990, European standard setters have met regularly in the European Commission's accounting advisory forum. More recently a group of standard setters known as E5+2 has been formed – this group consists of the standard setters in the five European countries represented on the IASC board - France, Germany, the Netherlands, the Nordic Federation and the United Kingdom - plus the European Commission and FEE.

Other groups include the standard setting bodies in:

- the ASEAN region (all of which make extensive use of IASs);
- the Nordic countries (all of which have adopted the EC directives and are using IASs to develop national standards); and
- the CIS (through a co-ordinating committee on accounting methodology).

FEE's Study of European Frameworks

Following the 1991 conference of standard setting bodies, FEE considered further the explicit and implicit frameworks adopted by standard setting bodies in Europe. The resulting study by FEE examines the extent to which differences in national accounting treatments of like transactions and events result from differences in national accounting frameworks, both explicit and implicit. The study concludes that European countries can be classified into three main categories[65]:

- Anglo Saxon countries such as Ireland, Denmark, the Netherlands, Norway and the United Kingdom which are strongly influenced by the true and fair view objective;
- Austria, the Czech Republic, Germany and Hungary where the principles of proper accounting give precedence to the creditor and shareholder protection objective; and
- other countries such as Belgium, France, Greece, Italy, Luxembourg and Spain where it is difficult to identify any dominant concepts behind the law or any prevailing objectives in preparing financial statements.

FEE argues that, in order to progress accounting comparability in Europe and influence the international standardisation process, there is a need to understand and solve internal inconsistencies in accounting in Europe. FEE concludes that, without a framework, this would be difficult but it doubts the value of any attempt to write a European framework. It prefers, instead, that efforts should be directed at seeking a common European view for discussing the development of new IASs on the basis of the interpretation of the IASC framework.

The Use of the IASC's Framework by the United Nations

The United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) was established in 1979 in succession to two earlier UN groups. Both Wong and Zund provide background explanations to the UN's work on accounting and reporting.

The ISAR group has focused on the following activities[66]:

- to review the list of minimum items for general purpose reporting by business enterprises, taking into account the reports of its predecessor UN groups;
- to review materials from international accountancy bodies and other interested groups;
- to consider participation of all countries, in particular the developing countries and the United Nations in formulation and adoption of international standards of accounting and reporting;
- to consider further steps to be taken in the field of accounting and reporting within the scope of the work of the UN Commission on Transnational Corporations, in particular as regards the comprehensive information system and the draft code of conduct of transnational corporations then being formulated by the United Nations; and
- to improve the comparability of the information provided by transnational corporations in their reports.

The ISAR group has achieved consensus on a number of accounting issues which are published in its *Conclusions on Accounting and Reporting by Transnational Corporations*.

These conclusions are usually based on the equivalent IASs although the ISAR group often allows the use of more alternative accounting treatments than were either previously, or are currently, permitted by IASs.

In 1987, the ISAR group decided to consider at its 1988 meeting the objectives of, and the concepts underlying, financial reporting. This decision was made less than a year after the IASC had commenced its framework project and while the IASC's framework steering committee was preparing its draft exposure draft. In accordance with the UN's usual practice, the Centre on Transnational Corporations commissioned an outside consultant to prepare a report the objectives and concepts underlying financial reporting for consideration by the group. In this case, the UN's consultant was Dr R S O (Segun) Wallace who was the technical advisor to the Nigerian delegation at the IASC board and Nigeria's technical advisor on the IASC's framework steering committee. In accordance with UN conventions his report appeared before the ISAR group as a 'report of the [UN's] secretary-general'.

Wallace's report, *Objectives and Concepts Underlying Financial Reporting*[67], 'attempted to elaborate on the objectives, concepts and building blocks of corporate reports issued by transnational corporations'. It drew heavily on the IASC's draft framework and referred briefly to conceptual work carried out in Australia, the United Kingdom and the USA. However, it did not refer to any of the explicit or implicit frameworks in other parts of the world including those other countries represented in the ISAR group.

At its 1988 meeting, the ISAR group agreed that the objective of financial statements was to provide information about the financial position, performance and changes in financial position of an enterprise, which is useful to a wide range of users in making decisions and is necessary for the accountability of management for resources entrusted to it. It also agreed that financial statements provide information to governments which is useful in making policy decisions. These objectives are similar to those in the IASC's framework. The ISAR group also identified a list of users of financial statements; this list is identical to that included in the IASC's framework.

The ISAR group deferred further consideration of the issues until its 1989 meeting when it approved its *Objectives and Concepts Underlying Financial Statements*. The group decided to issue the new document as a companion publication to its conclusions on accounting and reporting but to indicate that the objectives and concepts did not have the same status as the conclusions. The content of the ISAR document is very similar to that of the IASC's framework. The ISAR document is also given the same status in relation to other ISAR pronouncements as the IASC gives its framework in relation to IASs.

Conclusions

This article has described the development of the IASC's *Framework for the Preparation and Presentation of Financial Statements* and how that framework related to earlier decisions of the IASC. It has also described the way that the IASC has started to use its framework and the role that the IASC's and similar frameworks play in discussions among different standard setting bodies.

Nobody in the IASC or in any national body which has developed a similar conceptual framework would argue that the framework always points to a single solution to every accounting issue on which everybody could agree. However the use of an agreed conceptual framework has two major advantages in standard setting. First, it shifts the debate away from popularity contests of current practices; this was clearly demonstrated in the IASC's comparability and improvements projects. Instead, the framework forces standard setters to focus on the definitions and recognition criteria of assets, liabilities, income and expenses and

the relevance of particular information or accounting for the users of the financial statements.

The second advantage of an agreed conceptual framework is that it helps with the harmonisation process, hence the important role that the framework has played in the IASC's meetings of standard setting bodies, the work of G4+1 and FEE's efforts to advance European harmonisation. The use a framework forces participants in the harmonisation process to think about the appropriate accounting treatments for use in financial statements which have an agreed purpose rather than the accounting treatments which are currently favoured by national requirements and practices. This change of emphasis makes the harmonisation process easier than it would be (and has been) when participants have argued from different perceptions of the objectives of financial statements.

Notes

[1] IAS 1 [1974], 4
[2] International guidance on management accounting has subsequently been developed by the financial and management accounting committee (FMAC) of the International Federation of Accountants (IFAC).
[3] *IASC News*, October 1990, p6. IFAC's public sector committee supports the use of IASs by government business enterprises and is seeking to adapt IASs to meet the needs of government financial reporting (see Cairns 1999a, p98)
[4] IAS 1 [1974], 11
[5] IAS 1 [1974], 12
[6] *Framework for the Preparation and Presentation of Financial Statements*, 12
[7] IAS 10 [1978], 13
[8] *Disclosures in Financial Statements of Banks*, 28 and 29
[9] IAS 3, 5
[10] IAS 5, 3
[11] IAS 14 [1981], 5
[12] *IASC News*, December 1982, p1
[13] *IASC News*, December 1982, p3
[14] ibid
[15] At that time, the IASC's due process included the approval and limited circulation of a 'preliminary exposure draft'. In 1987, the 'preliminary exposure draft' was replaced by the 'draft statement of principles' (DSOP) which is approved for publication by the project steering committee rather than the board. DSOPs were also made available to the public with effect from 1990.
[16] *IASC News*, July 1985, p2
[17] Argentina, Australia, Belgium, Brazil, Canada, Egypt, France, Hungary, India, Italy, Japan, Kuwait, Mexico, the Netherlands, New Zealand, Nigeria, Spain, Sweden, Switzerland, the United Kingdom, the United States of America, Yugoslavia and the European Community.
[18] The objectives of the IASC, as set out in its constitution refer only to standards relating to the presentation of 'financial statements', a term which is further amplified in the *Preface to International Accounting Standards*.
[19] Nevertheless, in spite of this change, a year later the board did agree to consider further financial reporting issues outside the financial statements.
[20] *IASC News*, June 1988, p1
[21] Solomons (1988), p9
[22] The United Kingdom's ASB has adopted a similar approach in its *Statement of Principles for Financial Reporting*.
[23] IAS 1 (revised), 10 to 18
[24] *Framework for the Preparation and Presentation of Financial Statements*, 10
[25] *Framework for the Preparation and Presentation of Financial Statements*, 37
[26] American Institute of Certified Public Accountants Special Committee on Financial Reporting, *Improving Business Reporting - A Customer Focus*, New York, 1994, p33.
[27] IAS 1 (revised), 20
[28] *IASC Insight*, October 1991, p14
[29] *Framework for the Preparation and Presentation of Financial Statements*, 2

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[30] *Framework for the Preparation and Presentation of Financial Statements*, 3
[31] *Framework for the Preparation and Presentation of Financial Statements*, 1(a)
[32] *SIC Preface*, 5
[33] *Shaping IASC for the Future*, 44
[34] E32, 18
[35] *IASC News*, June 1988, p1
[36] E32, 19
[37] E32, 20
[38] The term 'preferred' was replaced by 'benchmark' in the June 1990 statement of intent on the comparability of financial statements.
[39] E32, 46 and 47
[40] E32, 57
[41] E32, 57
[42] E32, 208
[43] E32, 208
[44] The changes on inventories and borrowing costs were reversed following the re-exposure of the proposed changes to IAS 2 and IAS 23. For a more detailed explanation of the two issues see Cairns (1999a), pp47-50, 495-6, 506-9 and 729.
[45] See Cairns (1998) and (1999a), p495-6
[46] *IASC News*, December 1990, p3
[47] ibid
[48] See, for example, Davies, Paterson and Wilson, chapter 2. In 1992, the IASC changed its procedures for the appointment of steering committees so that it gained more control over the individuals appointed by countries and organisations. Under the new procedures, the IASC would not have appointed to a steering committee an individual who clearly disagreed with the purpose of the committee's project.
[49] *IASC Insight*, July 1992, p9
[50] *IASC Insight*, May 1993, p3
[51] *IASC Insight*, September 1994, p6
[52] *Framework for the Preparation and Presentation of Financial Statements*, 64
[53] *E59 Comment Letters*, p434
[54] *E59 Comment Letters*, p175
[55] The EU contact committee has concluded that IAS 37 prevents the recognition of certain restructuring provisions which must be recognised under the 4th directive (European Commission, 1999, p9)
[56] *IASC Constitution*, 2(b)
[57] *IASC News*, October 1990, p8
[58] Alex Milburn was a partner in Ernst & Young in Canada and a former chairman of the Canadian accounting standards board. He took over as chairman of the IASC's financial instruments project in 1995 and was mainly responsible for the IASC's 1997 discussion paper *Accounting for Financial Assets and Financial Liabilities*.
[59] Tweedie's paper has not been published but a summary was included in *IASC Insight*, October 1991, 13-14
[60] Cairns' paper has not been published but a summary was included in *IASC Insight*, October 1991, 14-15
[61] The paper by Kiyomitsu Arai and Shonosuke Shiratori was later published in Arai, *Accounting in Japan*, Institute for Research in Business Administration, Waseda University, Tokyo, 1994.
[62] The paper by Beresford and Leisenring has not been published.
[63] G4+1 would undoubtedly have been formed without the July 1991 conference of standard setting bodies taking place – with the formation of a strong, independent Accounting Standards Board in the United Kingdom with an internationalist (David Tweedie) as its chairman, it was always inevitable that the national standard setting bodies in the major English speaking countries would work together.
[64] Both Street and Shaughnessy, and Beresford describe in more detail the history and workings of G4+1
[65] FEE, p8
[66] United Nations (1994), p1
[67] United Nations report for the 6th session of the ISAR group, E/C.10/AC.3/1988/5, 11 January 1988

Appendix 1: An Outline of the IASC's Framework

Users of Financial Statements
Present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public.

Objectives of Financial Statements
To provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions.

Underlying Assumptions
Accrual basis - the effects of transactions and other events are recognised when they occur (and not as cash or cash equivalents are received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
Going concern - financial statements are normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future.

Qualitative Characteristics
Understandability – information provided in financial statements should be readily understandable by users who are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence.

Relevance - information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

Reliability - information is reliable when:
- it is free from material error;
- it is neutral, that is free from bias; and
- it can be depended upon to represent faithfully that which it either purports to represent or could reasonably be expected to represent.

Comparability - the financial effect of like transactions and other events should be measured and displayed in a consistent way:
- throughout an enterprise;
- over time for that enterprise; and
- by different enterprises.

Balance Sheet Elements
An <u>asset</u> is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.
A <u>liability</u> is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.
<u>Equity</u> is the residual interest in the assets of the enterprise after deducting all its liabilities.

Income Statement Elements
<u>Income</u> is an increase in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
<u>Expenses</u> are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

Recognition Criteria
An item which meets the definition of an element should be recognised if:
- it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- the item has a cost or value that can be measured with reliability.

Measurement
Measurement is the process of determining the monetary amounts at which the elements of the financial statements are recognised and carried in the balance sheet and income statement.

Measurement bases for assets:
- historical cost;
- current cost and replacement cost;
- market value;
- net realisable value;
- recoverable amount;
- present value; and
- fair value

Measurement bases for liabilities:
- historical cost;
- current cost;
- settlement value;
- present value; and
- fair value.

Concepts of Capital and Capital Maintenance
Financial concept of capital, such as invested money or invested purchasing power, under which capital is synonymous with the net assets or equity of the enterprise.

Physical concept of capital, such as operating capability, under which capital is regarded as the productive capacity of the enterprise based on, for example, units of output per day.

Financial capital maintenance - a profit is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period; and

Physical capital maintenance - a profit is earned only if the physical productive capacity (or operating capability) of the enterprise (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

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