

Al-Mustaqbal university college

Conceptual Framework for Financial Reporting

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Development of Conceptual Framework

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Conceptual Framework for Financial Reporting

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Describe the usefulness of a conceptual framework.
2. Describe the FASB's efforts to construct a conceptual framework.
3. Understand the objective of financial reporting.
4. Identify the qualitative characteristics of accounting information.
5. Define the basic elements of financial statements.
6. Describe the basic assumptions of accounting.
7. Explain the application of the basic principles of accounting.
8. Describe the impact that the cost constraint has on reporting accounting information.

Development of Conceptual Framework

The **FASB** has issued seven **Statements of Financial Accounting Concepts** (SFAC) for business enterprises.

- SFAC No.1** - Objectives of Financial Reporting (superseded by SFAC No. 8)
- SFAC No.2** - Qualitative Characteristics of Accounting Information.
(superseded by SFAC No. 8)
- SFAC No.3** - Elements of Financial Statements. (superseded by SFAC No. 6)
- SFAC No.5** - Recognition and Measurement in Financial Statements.
- SFAC No.6** - Elements of Financial Statements (replaces SFAC No. 3).
- SFAC No.7** - Using Cash Flow Information and Present Value in Accounting Measurements.
- SFAC No.8** - The Objective of General Purpose Financial Reporting and Qualitative Characteristics of Useful Financial Information
(replaces SFAC No. 1 and No. 2)

Conceptual Framework

Overview of the Conceptual Framework

- ◆ **First Level** = Basic Objectives
- ◆ **Second Level** = Qualitative Characteristics and Elements
- ◆ **Third Level** = Recognition, Measurement, and Disclosure Concepts.

International Perspective



The IASB has also issued a conceptual framework. The FASB and the IASB have agreed on a joint project to develop a common and improved conceptual framework. The project is being conducted in phases. Phase A on objectives and qualitative characteristics was issued in 2010.

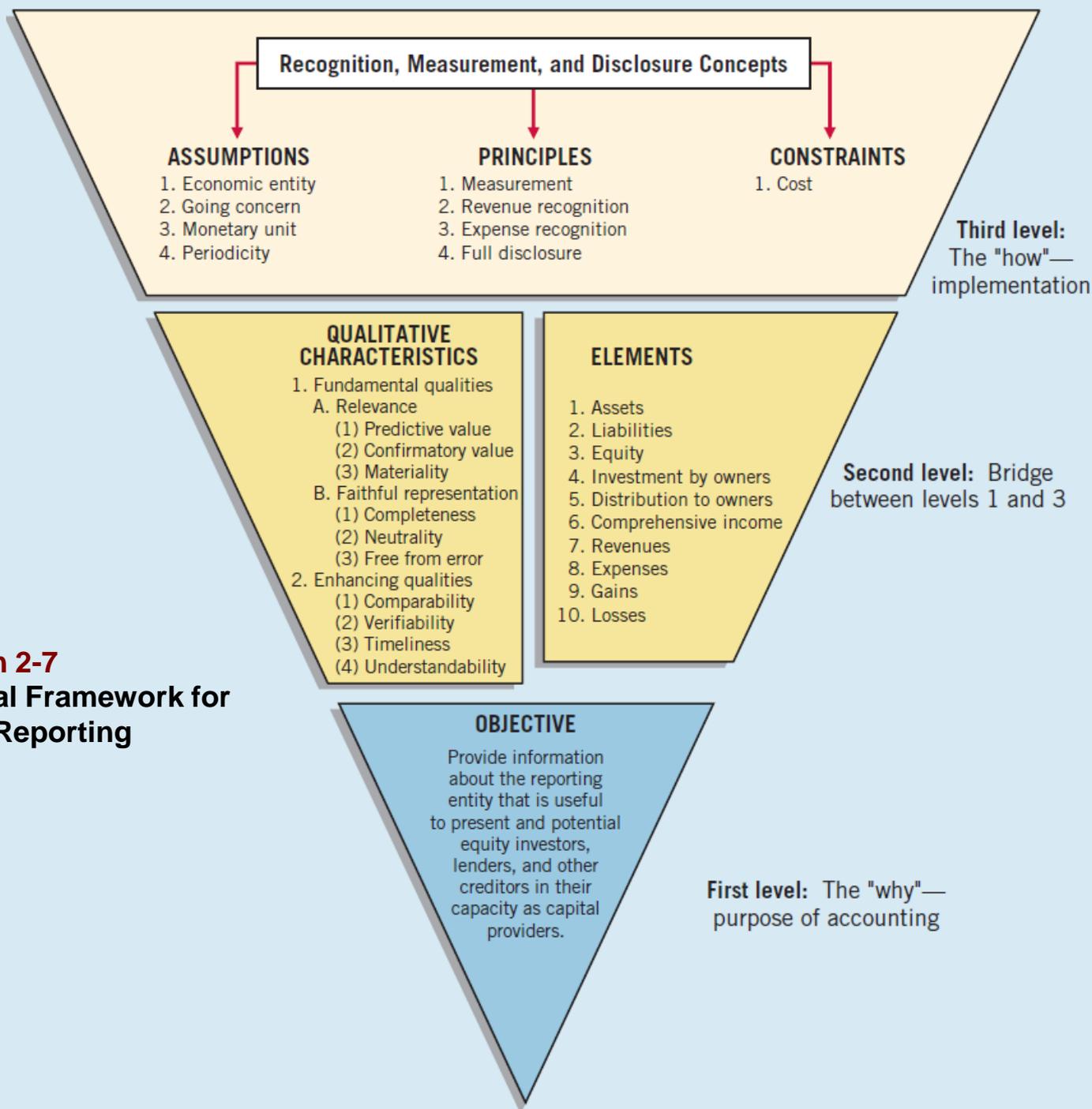


Illustration 2-7
Conceptual Framework for Financial Reporting

Conceptual Framework

Question

What are the Statements of Financial Accounting Concepts intended to establish?

- a. Generally accepted accounting principles in financial reporting by business enterprises.
- b. The meaning of “Present fairly in accordance with generally accepted accounting principles.”
- c. The objectives and concepts for use in developing standards of financial accounting and reporting.
- d. The hierarchy of sources of generally accepted accounting principles.