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Abstract—The International Accounting Standards Board updated the conceptual framework for financial reporting. The main reason behind it is to resolve the tasks of the accounting, which are caused by the market development and business-transactions of a new economic content. Also, the investors call for higher transparency of information and responsibility for the results in order to make a more accurate risk assessment and forecast. All these make it necessary to further develop the conceptual framework for financial reporting so that the users get useful information. The market development and certain shortcomings of the conceptual framework revealed in practice require its reconsideration and finding new solutions. Some issues and concepts, such as disclosure and supply of information, its qualitative characteristics, assessment, and measurement uncertainty had to be supplemented and perfected. The criteria of recognition of certain elements (assets and liabilities) of measurement uncertainty had to be supplemented and perfected. The criteria of recognition of certain elements (assets and liabilities) of reporting had to be updated, too and all this is set out in the updated edition of the conceptual framework for financial reporting, a comprehensive collection of concepts underlying preparation of the financial statement. The main objective of conceptual framework revision is to improve financial reporting and development of clear concepts package. This will support International Accounting Standards Board (IASB) to set common “Approach & Reflection” for similar transactions on the basis of mutually accepted concepts. As a result, companies will be able to develop coherent accounting policies for those transactions or events that are occurred from particular deals to which no standard is used or when standard allows choice of accounting policy.

Keywords—Conceptual framework, measurement basis, measurement uncertainty, neutrality, prudence, stewardship.

I. INTRODUCTION

THE updated conceptual framework of financial reporting includes the issues that were not discussed in the 2010 edition and correspondingly, have not been changed since 1998. Despite the minor corrections that have been made since this period up today, as a result of many changes implemented in the business environment, the existing framework does not match any more the modern reality. Considering all these factors, the new version of the frameworks includes some novelties, while a number of issues are updated and clarified. Namely:

- The novelties - assessment concepts, including factors that should be taken into account when selecting the basis of measurement; concepts of presentation and disclosure of information, including the revenue and expenditure classification in other comprehensive income statements;
- Updates:
  - Definitions of assets and liabilities;
  - Criteria of recognition of assets and liabilities in the financial statements;
  - Clarified Concepts: Prudence; Responsible stewardship/management; measurement uncertainty; advantage of substance over form;
  - Amendments in operating standards - instructions in accordance with updated concepts [1].

II. THE OBJECTIVE OF FINANCIAL REPORTING AND QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

The conceptual framework deals with the concepts of financial reporting and reporting entity enterprise. Financial reporting is defined as the financial statement of a specific form in which the information about the assets, liabilities, capital, revenue and expenses of the reporting entity are introduced. The Board cannot define within the scopes of its authorities, who can be a reporting entity, but gives general guidelines according to which the reporting entity is an enterprise which is required to prepare the financial reporting, or, is selected for preparing the financial reporting. A reporting entity is not necessarily to be a legal entity - it can be part of an enterprise or include more than one enterprise. In cases where it is difficult to determine the boundaries of an enterprise, the Board shall determine it referring to the information demanded by users of the financial reporting of an entity.

The objective of financial reporting is to provide useful financial information about the reporting entity to help existing and potential investors, lenders and other creditors in decision making process about further developments of the entity [9], [11].

In order to make decisions, information users assess not only the prospects of net cash flows in the enterprise but also the quality of the management of the enterprise's economic resources as to how efficient and effective the stewardship is [3]. For this purpose, the Board has introduced a management concept under which stewardship is certain ethics of management that reflects responsible planning and management of the resources.

Fundamental qualitative characteristics of financial reporting are still relevancy and fair presentation. The Board
restored the principles that provide the fair presentation of information – the principles of advantage of prudence, neutrality, and substance over form. The framework says that measurement uncertainty has an influence on a fair presentation of the financial reporting and correspondingly; the principle of prudence must be applied in conditions of measurement uncertainty. The Board considers prudence as follows: “Prudence is the inclusion of a degree of caution in the exercise of the judgments”. Namely, in conditions of the measurement uncertainty, prudence shall be applied when measuring the assets, liabilities, revenues, and expenditures [4].

The framework explains the principle of “measurement uncertainty” which had not been introduced in the previous edition of the framework. The “measurement uncertainty” occurs in cases where a direct observation of quantitative characteristics is impossible and, they need to be measured. The “measurement uncertainty” does not exclude usefulness of the information, however, a high level of uncertainty may hinder the quality of information and thus, the information may become useless. Therefore, the framework considers that in some cases it may be justified to select the information that may be less relevant but with a high level of the measurement uncertainty. According to the Board, the concept of prudence means the neutrality of information, and, its purpose is to provide reliable information. The neutrality of information is determined by the Board as the information that is free from biased data. Financial statements are not neutral if the selected information may influence the decision-making process or if such an information makes it possible to achieve at the preliminarily planned result [4], [5].

Discussions and explanation of the principle of prudence in the framework have made more obvious that these principles were not revoked and are still effective, while the contents and meaning of these principles are identified. Also, it is worth to note that the principle of prudence does not imply creation of hidden or excessive reserves, which allows for a preliminarily intentional reduction of assets and revenues or increase of liabilities and expenses, as a result of which, the information will not be neutral and fair. Since there are various interpretations of the precautionary principle (such as “cautious prudence” and “asymmetric prudence”), the Board has not only explained this principle but also solidified it with the notion of neutrality and, examines two aspects: selection of neutral accounting policies and neutral application of accounting policies. As a result, application of the concept of prudence does not provide a possibility of exaggerated or reduced measurement of the assets, liabilities, revenues, and expenses.

In the framework, there is no obvious reference to the use of the principle of advantage of substance over form, but there is an indication that a reflection of an event by a legal form, not by economic content, cannot ensure a presentation of fair information. The necessity of use of this principle must be expressed more clearly, in terms of currently operating standards and the ones to become effective in the future.

III. ECONOMIC RESOURCES AND FINANCIAL REPORTING ELEMENTS

The Board has updated the explanations for assets and liabilities. The new explanations were based on the concept of the economic resources, while the concept of future expectation of inflow and outflow of the economic benefits is omitted. In the previous version of the Framework there was no explanation of the economic resources while in the updated version the economic resources are defined as the right having the potential of economic benefit. According to the new explanation asset is an economic resource controlled by the entity as a result of past events, while the obligation is the current obligation of the entity, which envisages the transfer of economic resources as a result of the events that occurred in the past.

The reason for the change in the definitions of the assets and liabilities is that the Board wanted to illustrate that:

- Economic Resource is a right, with a potential of bringing an economic benefit;
- The asset is the economic resource, not the ultimate inflow (outflow) of economic benefits;
- For recognition of the assets and liabilities, it is not compulsory authorization or expectation of acceptance and transfer of the estimated economic benefit.

Definition of liability is based on the character of this obligation or the responsibility of the entity, for which purposes, the Board has introduced the criterion “no practical ability to avoid”, to the definition of obligation. Thus, the obligation is defined as a duty or responsibility to transfer the economic resources, since the entity has no practical ability to avoid it [2], [5].

According to the Framework, the criterion “Practically impossible” is used in the following cases:

- One party is obliged to transfer the economic resources, while the second party has the right to receive such the resources. A prevailing part of obligations arise from agreements, contracts, laws, or similar sources, and are subject to fulfillment by a party to which they are assigned;
- Obligation arises from the ordinary activities of the enterprise, from the declared policy or the specific statements - the entity is obliged to act if it has no practical opportunity to act in breach of acknowledged practice, policy or statements. The obligations arising in such situations are sometimes called "constructive obligations" [2], [6];
- The obligation of transfer of the economic resources depends on the specific events that will be possibly implemented by entity in future - the entity becomes obliged if it has no practical ability to avoid such actions [2].

Definitions of income and expenditure are changed in terms of definition of assets and liabilities. Namely, income is increase of an asset, or decrease of liabilities resulting in a raise of equity, other than those relating to contributions from equity holders. Expenses are decrease of assets, or increase of liabilities, resulting in a decline of equity, other than those
relating to distributions to equity holders claims [2], [11].

Recognition of the elements of financial reporting is explained as “the process of capturing, for inclusion in the statement of financial position or the statement(s) of financial performance, an item that meets the definition of an asset, a liability, equity, income or expenses” [2]. The previous version of the framework required that recognition should be not only in compliance with the definition of elements, but also the possibility of an inflow-outflow of the economic benefit and measurement of reliability of the items of the financial [6]. According to the new version of the Framework, the criteria for recognition of the elements of financial statements are the qualitative characteristics of the information. As the main goal of financial statements is to provide quality and useful information to its users, it is more suitable to recognise financial statements elements when there is possibility of relevant and fair presentation [2]. Therefore, relevancy and faithful representation are the criteria for recognition of the elements of financial reporting.

The reasons of changes of the criteria for recognition of the financial reporting elements are as follows: The probability criteria do not regulate properly the low probable cases of inflow or outflow of the economic resources; the reliable measurement criterion does not conform to the qualitative characteristics of relevance and reliable representation. With the replacement criterion, relevance will be used in case of measurement criterion does not conform to the qualitative criteria do not regulate properly the low probable cases of recognition of the elements of financial reporting.

In the currently effective version of the framework a little attention is paid to measurement, there are no guidelines introduced for applying the measurements - often it is unclear when the measurement should be applied. The new edition of the Framework is relied on the fundamentals/basics of measurement of elements of the financial statements and the factors to be considered for selection of the measurement methods [7].

The Board has established two grounds/bases for measurement: Historical cost measurement basis and Current value measurement basis.

The conceptual framework states that historical cost is derived from an initial deal based on contractual terms. However, historical cost might change over time due to various reasons (e.g. impairment, aging, etc.) and differ from fair value. [2].

A basis of measurement of current value is a current value that provides information updated to reflect conditions at the measurement date. Current value measurement bases include fair value, value in use for (assets), fulfillment value (for liabilities), and current costs:

- IFRS 13 defines fair value (uses an exit value) as “a price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date” [6], [8]. It reflects market participants’ current expectations about the amount, timing and uncertainty of future cash flows [6];
- Value in use (for assets) and fulfillment value (for liabilities) reflect the current expectations to the volumes of future cash flow, terms, and uncertainties of particular objects;
- Current costs reflect the current amount that would be paid to acquire an equivalent asset and received to take on an equivalent liability.

The Board considers that different bases will be required for different assets, liabilities, revenues, and costs. Selection of a measurement basis – the factors to be considered for selection of a measurement basis are in line with qualitative characteristics of useful information - relevance and faithful representation [5]. Relevance (Importance) of information presented, which is based on measurement basis, depends on the nature of an asset or liability and its related anticipated future cash flows. Meanwhile, fair presentation (measurement) might be affected by uncertainty, assumptions and/or other factors. At the same time, the Board requires a certain limitation of costs, when selecting the basics of measurement. Thus, considering factors and limiting costs will result in the selection of different bases of measurement for different assets, liabilities, revenues and expenses.

In the basics of submission and disclosure of the information, the following new issues are discussed:

- Concepts describing which information should be submitted and disclosed;
- Guidelines for classification of incomes and expenses which will be applied by the Board after deciding their inclusion in the profit-and-loss accounts and other comprehensive income statement;
- Board Guidelines regarding inclusion of profit-and-loss data in other comprehensive income statement;

It is also important that a purpose of the profit-and-loss statement is identified as: Reflection of other incomes received from the entity’s resources; submission of
information that would be useful for forecasting future cash flows and assessment of proper use of the resources by the entity management.

Basically, all revenues and expenses after the proper classification will be included in the profit-and-loss statement. In special cases, the Board may make decision on inclusion of some revenues and expenditures not in the profit-loss statement, but in other comprehensive income statements, i.e. the incomes and expenditures originated as a result of changes in the current cost of assets and liabilities. The Council may make such a decision if as a result; the profit-loss reporting information will become more relevant or fair [9]. On the contrary, the revenue and expenses incurred by other full revenues will be recycling in the following periods in a profit liable condition that profits-loss information will be relevant or fair. If the recycling does not result in further revenue or fairness from other comprehensive income statements, the Board may prohibit recycling.

V. CONCLUSION

Income or loss statement shall include all income and all expenses, except when the revenues or expenses (or their components)

- Belong to the assets and liabilities measured by their current cost; and
- Exclusion from the profit-and-loss statement improves compliance of the information to the reporting of the relevant period.

The elements to be recognized in a comprehensive income statement and their further recycling, should again be based on the fundamental characteristics of useful information – relevance and faithful representation.

REFERENCES


