Chapter 13

A NOTE ON THE INFORMATION PERSPECTIVE AND THE CONCEPTUAL FRAMEWORK

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Abstract: The FASB and IASB are reexamining and revising their existing conceptual frameworks. A conceptual framework consists of (1) objectives and (2) concepts that follow logically from those objectives. Most attention is being paid to the concepts, seemingly accepting the objective of wealth measurement. This paper suggests reconsideration of wealth measurement as the objective. Christensen and Demski (2003) suggest two views of accounting objectives: (1) the "value school" based on wealth measurement and (2) the "information content school" based on measuring and disclosing informative events. They make a case for the latter as the most logical objective of accounting. If one accepts the information-content approach to accounting, quite different concepts may arise. For example, the FASB and IASB are on record favoring the balance sheet approach over the revenue and expense approach. This is logical if wealth measurement is an appropriate objective. However, under the information content approach, the revenue/ expense approach, essentially focusing on the flows, which more directly reflect the events affecting an entity, may more logically follow. The revenue/expense approach seems to better align with the disclosure of information events and states.

Key words: conceptual framework, accounting objectives and concepts, information content school, balance sheet approach, revenue and expense approach

1. INTRODUCTION

Accounting standard setters worldwide agree that a conceptual framework is a great help in developing a coherent set of standards. The Financial Accounting Standards Board (FASB) in the United States

developed its first framework in the 1970s. This was followed by similar frameworks developed in Canada, Australia, New Zealand, and the United Kingdom, as well as by the International Accounting Standards Committee, predecessor of the International Accounting Standards Board (IASB). The lack of a conceptual framework was seen as one of the main failings of the Accounting Principles Board (APB), as pointed out by Oscar Gellein (1992), a member of both the APB and FASB.

Although official conceptual frameworks have existed now for nearly three decades, they have not proved as useful as many expected. They have been incomplete and rife with internal inconsistencies. The goal of using the conceptual framework as a roadmap for the development of new standards has remained elusive. In addition, the accounting scandals in the early 2000s generated demands for “principles-based” standards. Although different parties had different definitions of what they meant by principles-based standards, the staff of the Securities and Exchange Commission (SEC) in the United States proposed the following reasonable definition (see Office of the Chief Accountant and Office of Economic Analysis, United States Securities and Exchange Commission (2003)): “[E]ach standard is drafted in accordance with objectives set by an overarching, coherent conceptual framework meant to unify the accounting system as a whole.” Therefore, a conceptual framework is central to the development of principles-based standards. To address this issue, the FASB and IASB have instituted a joint project to reexamine and revise the existing conceptual frameworks of the two boards.

2. OBJECTIVES AND CONCEPTS

According to L. Todd Johnson (2004), a conceptual framework consists of two parts, 1) objectives of financial reporting and 2) concepts that follow logically from those objectives. There seems to be little controversy over the objectives, and most attention is currently focused on the concepts that flow from the objectives. The purpose of this note is to suggest a reexamination of the objectives and how they lead to what Johnson calls the “fundamental building blocks” of financial statements – the elements of financial statements -- assets, liabilities, equities, revenues expenses, gains, losses, etc., which are defined in *Statement of Financial Accounting Concepts No. 6* (FASB, 1985).

The general objective accepted by most accountants is that financial reports facilitate economic decision making by investors and creditors. This is clearly an important objective if not the only objective. Following from this, it is reasonable to assume that the financial reports will focus on, as