Investing in africa`s future

Education, Learning

Conceptual Framework is an attempt to provide a foundation that sets out the objectives and concepts that underlie the preparation and presentation of general purpose financial statements for use by external users (GAAP p3). It was established in 2001 by IASB with the objective of actively working with national standard setters and bring convergence of national accounting standards through chapter3 which explains qualitative characteristics of information. Conceptual Framework`s objective is to provide financial information to existing potential and willing investors.

The General Purpose Financial Report in conceptual framework provides financial information like financial position and performance of reporting entity. This helps investors to know if there is need for further investment and also the liquidity position and solvency of the entity. More so, it aims to achieve uniformity in financial statements preparations internationally. Unnecessary elements were eliminated, similar basis for determining events to report, how to measure and format of communicating with users were created.

According to GAAP, Conceptual Framework was developed to provide information to those interested in IASB`s work regarding its approach to IFRS`s formation. Conceptual Framework explains every step taken by IASB in framework development. It also assist standard setters, IASB when setting standards and national standards setters when adopting standards for use in their countries. It reduces number of alternative accounting treatments permitted by IFRS by promoting harmonization of regulations, accounting standards and procedures of financial statements presentation. It also assist users in interpreting information contained in financial statements since they are prepared in an understandable manner of information presentation. It assist auditors to understand basis for preparation of reports they are auditing.

They can understand estimates used since the way data should be presented and calculated is explained. It contains objective of financial that is set of general purpose information which shows financial position and performance. Financial position inform of economic resources and claims against the entity presented in Statement of Financial position. Financial performance is evaluating company`s past and future profitability performance and is presented in Statement of cash flows. It also contains elements of financial statements which includes assets, liability, income, expenses, and equity. Assets are resources controlled by entity due to a past event occurred which result in future economic benefits. Liabilities are present obligation due to a past event resulting in outflow of future economic benefits, they can be legal or constructive. Equity is 1812732. residual resources after all companies are considered. Expense are outflow of economic benefits and income is an inflow of economic benefits. It includes recognition and measurement in financial statements which include assumptions, principles and contraints. Assumptions are accrual basis (income incurred the period we earned it and expenses the period we incur them).

Going concern (is the company going to operate in forcible future). Principles include historical cost, current, realizable and discounted value. Mores, it contains qualitative characteristics of accounting information which include fundamental that determine the usefulness of information and enhancing characteristics that are not critical but their presence is highly desirable. Fundamental characteristics include faithful representation, relevance. Information is relevant when it makes a difference in user`s decision and if it has predictive, confirmatory value and when it is material ‘ Information must be complete, neutral and free from error However, considerable number of accountants and auditors believe that features of financial statements stated under IAS1 are an extension of underlying assumptions and count them as assumption. Free from error to be faithfully represented. The information has enhancing characteristics when it is comparable, verifiable, timely and understandable. Mores, it deals with GPFR which cannot provide adequate information needed by users from other resources regarding general economic conditions such as inflation, political events which affect business hence it is limited in approach.

The developments of Conceptual Framework up-to-date: In July 2006 objectives of financial report and qualitative characteristics were published. 3 December 2007 Board discussed three options in replacement of the term reliabity with faithful representation and implications for recognition criteria in paragraph 86 of existing framework. 29 May 2008 chapter 1 and 2 were published.

On 28 September 2010 Phase 1 and 3 of new framework were published with new chapters and text carried from 1989 framework. On 29 March 2018 the IASB published Conceptual framework with the revised definitions of assets and liabilities, new guidance on measurement and deregulation, presentation and disclosure. In conclusion, Conceptual Framework has been developed to cater for a range of accounting models, capital maintenance and to set concepts and principles which are the foundation in financial preparation and presentation. However, it does not define standards for any particular measurement.