

Conceptual Framework Project

Gabriella Sasso
St. John Fisher College

Follow this and additional works at: <http://fisherpub.sjfc.edu/ur>

 Part of the [Accounting Commons](#)

[How has open access to Fisher Digital Publications benefited you?](#)

Recommended Citation

Sasso, Gabriella. "Conceptual Framework Project." *The Review: A Journal of Undergraduate Student Research* 2 (1999): 37-40. Web. [date of access]. <<http://fisherpub.sjfc.edu/ur/vol2/iss1/8>>.

This document is posted at <http://fisherpub.sjfc.edu/ur/vol2/iss1/8> and is brought to you for free and open access by Fisher Digital Publications at St. John Fisher College. For more information, please contact fisherpub@sjfc.edu.

Conceptual Framework Project

Abstract

In lieu of an abstract, below is the essay's first paragraph.

Beginning in 1973, the Financial Accounting Standards Board's Conceptual Framework Project was formed. After twelve years of putting together what was designed to describe existing practice, prescribe future practice and define commonly used terms, the results and support were far from what was expected. Many felt that the project was a great waste of time, resources and effort, while others believed it to be one of the most important accomplishments in the accounting field. By examining both the pros and the cons of the Conceptual Framework Project, it can be seen that the positive effects that it offers greatly outweigh the negative effects that many feel have made the project unsuccessful.

Conceptual Framework Project

By: Gabriella Sasso

Beginning in 1973, the Financial Accounting Standards Board's Conceptual Framework Project was formed. After twelve years of putting together what was designed to describe existing practice, prescribe future practice and define commonly used terms, the results and support were far from what was expected. Many felt that the project was a great waste of time, resources and effort, while others believed it to be one of the most important accomplishments in the accounting field. By examining both the pros and the cons of the Conceptual Framework Project, it can be seen that the positive effects that it offers greatly outweigh the negative effects that many feel have made the project unsuccessful.

To aid in the newly formed Financial Accounting Standards Board, a conceptual framework for financial accounting was being developed. The main goal was to provide a "constitution" for FASB to adhere to when they were setting accounting standards (Gore 1). The framework was "to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards" (Shultis 6). In order to be able to draw conclusions on whether or not FASB's Conceptual Framework Project was successful, one must fully understand the term "conceptual framework" on a general level. A simple definition that was used as a basis for FASB's development of the framework is "a collection of broad rules, guidelines, accepted truths, and other basic ideas about the field" (Gore 29). Using the basic idea that the framework is needed for state regulations, FASB designated their own formal definition:

A constitution, a coherent system of inter-related objectives and fundamentals that can lead to consistent standards and that prescribe the nature, function, and limits of financial accounting and financial statements. (Gore 32)

One of the reasons for creating the framework was to describe the existing practice. In the definition, this is referred to as the "system of inter-related objectives." These objectives are used to identify the main goals and purposes of the accounting standards. What the conceptual framework was expected to do was to enhance the user's understanding and assurance in financial reporting and to provide a guide to help settle accounting questions or problems that arise in situations where a standard does not already exist (Nikolai 26).

A main focus of the framework was to educate non-accountants on how to use the information and to provide them with relevant, useful information. Another focus was to help solve new problems by utilizing specific practices, and from there develop general rules that are consistent with what is already being used. This type of approach is known as a descriptive framework. It is often referred to as the bottom-up or the inductive approach.

Those against this framework argue that the way in which the descriptive approach is used to obtain a general rule from specific ones is dependent on the observer. They argue that it would be difficult to get everyone to agree on the **best** way a technique should be used, which is often harder to agree upon than which technique to use in the first place. Many felt that the conceptual framework was making accounting into a science that would later cause it to fail, "accounting not being like geometry, with conclusions flowing logically from predetermined axioms and definitions" (Gore 39).

Supporters of the conceptual framework project believed that this bottom-up approach was an advantage because it "tends to produce very practical concepts that take into consideration the real-world problems that have led to existing practices" (Miller 98). Once a concept is defined, it is applied in the same manner to similar transactions. The

concepts were in no way changing accounting into a science. They are only to be used as a basis for solving problems, not to give definite answers for all that arise.

They lend guidance--they do not provide simple, no-think answers. They leave open a significant range for hard thinking and deliberation about reporting standards. They furnish the reference point for thinking (Haskins 9).

For those who want to maintain the status quo, the descriptive approach is also advantageous. In this regard, change is avoided and no new techniques need to be learned, which simplifies the general understanding of the field for the non-accountant users. "Financial reporting would lose its credibility and integrity if standard setters chose changing policies. Decision-makers would no longer have relevant and reliable information" (Haskins 90).

Defining commonly used accounting terms was another main reason for the development of the conceptual framework. Straightforward definitions of terms such as *assets*, *liabilities* and *expenses* were thought to be useful to the Financial Accounting Standards Board and other standard-setting systems while deliberating.

The positive affects of these definitions are that everyone involved in the deliberating process is able to communicate and understand each other through a common language. Also, the standards will be more consistent with accounting language. The opposition's only criticism is that, within each definition, there are terms that can take on different meanings or be interpreted differently by each individual. For example, the board's definition of an asset starts off as "a probable future economic benefit." Critics feel that the words *probable*, *future* and *benefit* can have different debatable meanings. However, after issues are debated over and over again, common meanings will eventually be established and, therefore, also be more efficient (Miller 103).

Possibly the most important reason for developing the accounting conceptual framework is to prescribe future practices. This consists of actually doing the opposite of what was being done when describing the existing practice. Unlike describing, when prescribing, the general concepts that have been established are made into specific concepts that apply to new concepts that arise. By doing this, there are general guidelines that are to be followed; however, the answer is not confined to a defined solution. Over and over again, these general concepts can be used in situations that are new to the field and which were never expected or foreseen.

The major problem found in this top-down approach to solving future issues was the fact that the concepts being applied to different situations may be too vague. The fear of one concept being used to solve three or four different questions seems to assume that the concepts are abstract and are not really applicable (Miller 101). However, even many skeptics understand that a few simple flaws in the project do not give enough reason to reject the whole proposal. "Regardless of the direction it points, it will result in less uncertainty and turmoil in the future (Haskins 90)".

On a more general scale, cynics of the conceptual framework project criticize it for the mass amounts of time, effort and money that were put into it. Many wonder why it was ever thought of, let alone why eight years were "wasted" on forming it. Some find the framework to be totally irrelevant. They say that they would rather have drawn conclusions to problems based on their extensive accounting knowledge rather than on a set of concepts or guidelines. "There are many of us who will choose the progress of the past 80 years rather than the motion of eight" (Dec 1982 CPA Journal).

Advocates are not unwilling to accept the fact that a lot of time, effort and money were put into the project. However, they do not feel it was a waste, but much rather a needed expense to obtain the desirable stability and certainty in the accounting field

(Haskins 90). The bureaucracy believed that financial accounting and standard setting needed a conceptual basis to build upon, therefore causing the Conceptual Framework plan to get started (Hickok 75). They chose this plan over all others because "in even more practical terms, those other approaches are also not workable in the long run" (Haskins 90).

The opposition seems to look at the situation from a very narrow perspective. They see only the faults in the change because most of the skeptics are practicing accountants who are being made to adhere to the consistency of the framework. Supporters, on the other hand, take everyone that it will affect into consideration. They see that it is an improvement for the good of the accounting field, not for just a small number of people. "It is clear that a conceptual approach best serves the public interest" (Haskins 90). With all changes, big or small, there are bound to be two sides, those in favor and those who criticize. Although there was a great deal of effort put into the development of FASB's Conceptual Framework Project, its attempt at bettering the field of accounting through its rigorous battles of defining, integrating and establishing concepts has made a great impact that will last for years to come. The results of the twelve long years it took to establish the framework seems to many to have been satisfying enough to support the notion that "at least the effort is essential and worth waiting for" (Haskins 10).

Works Cited

- Gore, Pelham. The FASB Conceptual Framework Project 1973-1985. New York: Manchester University Press, 1992.
- Haskins, and Sells, "The Role of a Conceptual Framework" CPA Journal October 1990: Vol 50.
- Haskins and Sells, "Concepts -vs- Consensus Compromise or Consequences." CPA Journal December 1980: Vol 50.
- Hickock, Alfred, "Accounting and Auditing" CPA Journal December 1982: Vol 52.
- Miller, Paul. The FASB-The People, the Process, & the Politics. Illinois: IRWIN, 1986.
- Nikolai and Bazley. Intermediate Accounting. Cincinnati: Southwestern College Publishing, 1997.
- Shultis, Robert L. "Opinion." Management Accounting April 1982: Vol 63.