



Australian Government

**Australian Accounting
Standards Board**

The Conceptual Framework – The Way Forward. A commentary

**Financial Reporting and Auditing Conference – A New
Landscape**

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The Challenge Set

- **Any lessons from Australian Framework of the 1980s that are relevant today? That is,**
 - **in a global context**
 - **in both sectors**
 - **applicable to both for-profit and not-for-profit**
 - **given our current knowledge**

Some History

- **1981** marked the end of the efforts to put in place a current cost accounting system (such efforts coming after intensive review of all competing models, including exit price models)
- The early eighties was a period to regroup, place measurement in context and build better foundations for a CF
- **1983** saw the birth of the public sector accounting standards board and a preparedness to think conceptually (shades of IPSASB and IASB)
- Took US CF and developed and proselytised it.
- Sold CF internationally to IASC and provided authors
- Carefully avoided measurement for as long as possible
- Published basic raft of Statements and a number of monographs.

What did we get right or better understand then?

- **Identification of the reporting entity concept and the need for a definition of financial reporting**
- **Better placement of the concept of materiality in the QCs**
- **A broader view of display level and how to connect it to the objectives**
- **Recognition of the need for concepts of capital and income and an acceptance that each have their consequences**
- **Authoritative status for concepts**
- **Entity orientation**
- **Detailed knowledge of estimating current input values**
- **Understanding of the limitations of exit values**
- **Consistency in use of recognition criteria**

What did we get right or better understand then?

- **Economics = economics, no matter the sector**
- **CF should, as far as possible, be developed without peeking ahead**

What did we get wrong or fail to develop fully?

- **definition of financial reporting**
- **A broader view of display (partly – see later slide)**
- **Written descriptions of competing concepts of capital and income**
- **Articulation of the relationships between concepts of capital and income and measurement bases**
- **Definition of future economic benefits in terms of capital and income**
- **Measurement of financial assets and liabilities in context of capital and income (there were very few)**
- **Placement of control and probability in definition and QCs instead of recognition and measurement respectively**
- **Understanding of intangibles and market economics led to some misstating of deprival value**

What did we get wrong or fail to develop fully?

- **Cross cutting issues (e.g., asymmetry in definition of assets and liabilities, relationships between reporting entity, definition of asset, consolidation practices and handling changes in measurement of price changes)**
- **Linkage to capital markets and other research**
- **Understanding and timing**
 - **25 years later average practitioner is more conceptual but marked improvements in frameworks are still to be won**

Lessons for Today's Measurement Debate

- **Danger of entering “don't mention the war” phase. Talk about anything except fair value. Methods and deferred amounts are enjoying a resurgence.**
- **Failure to articulate a holistic coherent model for fair value has severely limited its understanding**
- **Traditional known failings of fair values are being rediscovered. Edwards and Bell 1961 is definitive.**
- **A deeply entrenched problem is the failure of many preparers to use economic information in management and decision-making. Contrast the use of fair values in banks with the use of current values in manufacturing.**
 - **Reform what first?**
- **Public sector has moved more to fair value, but still doesn't often think in terms of value.**

A different take on display level

- We should be trying to report the financial position, performance, financing, investing and compliance of entities using economic concepts, when
- Financial position comprises:
 - Wealth
 - Financial sustainability
 - Financial flexibility
 - Liquidity
 - Solvency
- Performance is the change in all aspects of financial position
- Financing and investing are measured in terms of all flows of economic benefits (as defined in elements)
- Compliance reporting reveals contractual or legal constraints that would materially impact the assessment of the above (e.g. the breach of a borrowing covenant).
- Any focus on future cash flows is a means to an end, not the end. Danger of current mantra being unchallenged.

A different take on display level

- **Such an approach enables linkage to the objectives and provides guidance to standards-setters in setting disclosures in individual standards**
- **Is arguably consistent with calls by analysts in both sectors for greater information about drivers rather than bottom lines**

Keep up to date

- Check out AASB website
 - www.aasb.gov.au



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The Financial Reporting Framework – New Zealand’s Choices and the Australian Landscape

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