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At-A-Glance

Prior to the establishment of a set of accounting principles, the overall context within which the principles are to be positioned must be agreed upon. That context is known as the conceptual framework. Both the Financial Accounting Standards Board (FASB) and the predecessor of the International Accounting Standards Board (IASB) delineated conceptual frameworks when their work began five decades ago. Over time, these frameworks have been refined and expanded with the needs of a changing world. Recently, the FASB released a new chapter explaining under what circumstances to include or exclude items from financial statements. This issue provides highlights.

Also, our Worldwide Update covers news from organizations across the globe.

Gerald Herter - Editor

FASB's New Recognition Criteria for Financial Statement Items

New chapter added to conceptual framework

Before the FASB can develop financial accounting standards, a structure of overall goals and objectives is needed to guide the process. The Conceptual Framework provides that backdrop. As stated by the FASB, â€œThe Conceptual Framework is a body of interrelated objectives and fundamentals that provides the FASB with a useful tool as it sets standards. A Statement of Financial Accounting Concepts is nonauthoritative and does not establish or change generally accepted accounting principles.â€

The Conceptual Framework was initially established in 1973 when the FASB was formed. There are eight Statements of Financial Accounting Concepts (SFAC):

1. Objectives of Financial Reporting by Business Enterprises
2. Qualitative Characteristics of Accounting Information
3. Elements of Financial Statements of Business Enterprises
4. Objectives of Financial Reporting by Nonbusiness Organizations
5. Recognition and Measurement in Financial Statements of Business Enterprises
6. Elements of Financial Statements of Nonbusiness Organizations
7. Using Cash Flow Information and Present Value in Accounting Measurements
8. Conceptual Framework for Financial Reporting.

On August 30, 2023, the FASB released Chapter 5 of SFAC 8, titled Recognition and Derecognition. This chapter describes the criteria for when an item should be included or excluded from financial statements. The three criteria for inclusion are:

1. Definitionsâ€”The item meets the definition of an element of financial statements.
2. Measurabilityâ€”The item is measurable and has a relevant measurement attribute.
3. Faithful Representationâ€”The item can be depicted and measured with faithful representation.

When the three criteria are not present, the item should not be in the financial statements (derecognized). By meeting the three criteria, an item is deemed relevant which fulfils a qualitative requirement. Also, the financial burden is taken into account, so that the benefits of inclusion outweigh the cost. Similarly, materiality is a pertinent factor.

Chapter 4 of SFAC defines the ten elements of financial statements, which include assets, liabilities, equity (net assets), investments by owners, distributions to owners, comprehensive income, revenues, expenses, gains, and losses. For example, an asset is known for having two essential characteristics: a. It is a present right, and b. The right is to an economic benefit. A liability also has two essential characteristics: a. It is a present obligation, and b. The obligation requires an entity to transfer or otherwise provide economic benefits to others.

A method for measurability is useful to readers of the financial statements when the â€œmeasurement process is (a) complete, (b) neutral, and (c) free from error.â€ Faithful representation also depends on these three characteristics of completeness, neutrality and accuracy. Recognizing that estimates and judgment are required for financial reporting, adequate and meaningful descriptions are required to provide a faithful representation.

The International Accounting Standards Board (IASB) also has a conceptual framework that is similar to that of the FASB. The IASBâ€™s Conceptual Framework for Financial Reporting, originally issued in 2010 was revised in March 2018. Generally, the FASB provides more specific details while the IASB is more principles based.

Further details can be found at [FASB issues a new chapter of its Conceptual Framework related to recognition and derecognition.]

Worldwide Update

Periodic roundup of recent and upcoming actions and activities by auditing and accounting organizations throughout the world.

International

IASB â€“ International Accounting Standards Board (www.ifrs.org)

- **Exposure Draft â€“ Accounting Standards - Annual Improvements**, issued September 12, 2023, would impact IFRS 1, 7, 9 and 10, covering the subjects of hedge accounting by a first-time adopter; financial instrument disclosures of gain or loss on derecognition, and accounting for derecognition of lease liabilities and transaction price; consolidated financial statementsâ€"determination of a â€˜de facto agentâ€™; and statement of cash flowsâ€"cost method. The comment period ends on December 11, 2023.
- **Lack of Exchangeability (Amendments to IAS 21)**, amendments issued August 15, 2023. â€œThese amendments will require companies to apply a consistent approach in assessing whether a currency can be exchanged into another currency and, when it cannot, in determining the exchange rate to use and the disclosures to provide.â€ The amendments will become effective for annual reporting periods beginning on or after January 1, 2025. Early application is permitted.

IFAC â€“ International Federation of Accountants (www.ifac.org)

- *No new developments.*

IFR4NPO - ***International Financial Reporting for Non-Profit Organisations (www.ifr4npo.org)***

- *No new developments.*

IOSCO â€“ International Organization of Securities Commissions (www.iosco.org)

- *No new developments.*

ACCA â€“ Association of Chartered Certified Accountants (www.accaglobal.com)

- *No new developments.*

CIMA â€“ Chartered Institute of Management Accountants (www.cimaglobal.com)

- *No new developments.*

World Economic Forum â€“ (www.weforum.org)

- *No new developments.*

Africa, Europe, India and the Middle East (AEIME)

FRC â€“ Financial Reporting Council of the UK (www.frc.org.uk)

- *No new developments.*

ICAEW - Institute of Chartered Accountants in England and Wales (https://www.icaew.com/)

- **AI fraud and accountants**, article issued September 8, 2023, posing that â€œMany predictions about AI taking our jobs have not yet materialised, but the threat of AI-driven fraud is a much more worrying development.â€

EC â€“ European Commission (https://ec.europa.eu/)

- *No new developments.*

EFRAG â€“ European Financial Reporting Advisory Group (www.efrag.org)

- **Climate-related Risks in the Financial Statements**, Briefing Summary issued September 14, 2023, â€œhighlights key findings from EFRAGâ€™s outreach and engagement with stakeholders on the International Accounting Standards Board (IASB) project on Climate-related Risks in the Financial Statements (CRFS).â€

Americas, Asia, Australia and New Zealand (AAANZ)

AICPA â€“ American Institute of Certified Public Accountants (www.aicpa.org)

- *No new developments.*

FASB â€“ Financial Accounting Standards Board (www.aicpa.org)

- **Chapter 5 of FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting***, issued July 31, 2023, â€œto improve the disclosures about a public business entityâ€™s expenses and address requests from investors for more detailed information about the types of expenses (including employee compensation, depreciation, and amortization) in commonly presented expense captions (such as cost of sales, SG&A, and research and development).â€ Comment period ends October 30, 2023.
- **ASU 2023-05â€” Business Combinationsâ€” Joint Venture Formations (Subtopic 805-60)**, issued August 23, 2023. â€œThe amendments in this Update address the accounting for contributions made to a joint venture, upon formation, in a joint ventureâ€™s separate financial statements. The objectives of the amendments are to (1) provide decision-useful information to investors and other allocators of capital (collectively, investors) in a joint ventureâ€™s financial statements and (2) reduce diversity in practice. The amendments in this ASU are effective prospectively for all joint ventures with a formation date on or after January 1, 2025, and early adoption is permitted.â€

GASB â€“ Governmental Accounting Standards Board (www.gasb.org)

- *No new developments*

COSO - The Committee of Sponsoring Organizations of the Treadway Commission (www.coso.org)

- *No new developments*

PCAOB â€“ Public Company Accounting Oversight Board (www.pcaob.org)

- *No new developments*

SASB â€“ Sustainability Accounting Standards Board (www.sasb.org)

- *No new developments*

SEC â€“ Securities and Exchange Commission (www.sec.gov)

- *No new developments*

Additional A&A News

- Audit profession must â€˜face upâ€™ to common issues causing accounts delays, experts say
- Cybersecurity for CPAs: Beware the inside threat
- The Changing Landscape Of Company Audits
- ESG Reporting: Meeting the Needs of Key Stakeholders
- PwC to take big steps on audit quality, independence, accountability
- FASB approves crypto asset standard

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