The Regulatory Framework of Accounting

Chapter 13

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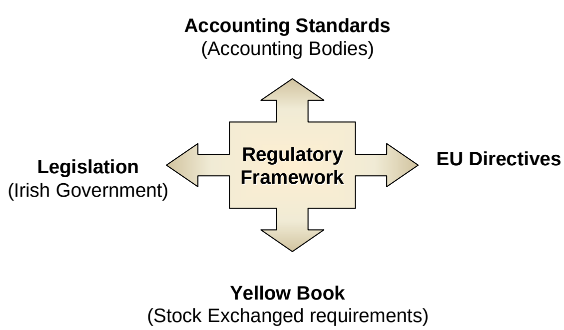
Regulatory framework



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Accounting standards

- Accounting Standards Committee (ASC)
- Statements of Standard Accounting Practice (SSAP)
- Accounting Standards Board (ASB)
- Financial Reporting Standards (FRS)
- Financial Reporting Standard for Smaller Entities (FRSSE)
- Urgent Issue Task Force (UITF) abstracts
- International Accounting Standards Committee (IASC)

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Consultative process

Step 1: The issue of working drafts for discussion (DD).

Step 2: After the discussion period a Financial Reporting Exposure Draft (FRED) is issued.

Step 3: After consideration of feedback on the exposure draft an FRS is published

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Accounting concepts

- **The Business Entity Concept**
- **The Dual Aspect Concept**
- **The Money Measurement Concept**
- **The Realisation Concept**
- **The Cost / Current Value Concept**
- **The Going Concern Concept**:
- **The Accruals Concept**
- **The Prudence Concept**
- **The Consistency Concept**
- **Materiality Concept**
- **The Substance over Legal Form Concept**

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Statement of Principles for Financial Reporting

Sets out the principles that the ASB believe should underlie the preparation and presentation of financial statements that are required to give a true and fair view.

Chapters
- **The objectives of Financial statements**
- **The Reporting entity**
- **The qualitative characteristics of financial information**
- **The elements of financial statements**
- **Recognition in financial statements.**
- **Measurement in Financial statements**
- **Presentation of financial information.**
- **Accounting for interests in other entities**

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FRS 18

FRS 18 deals with how accounting policies are selected, applied and disclosed.

The standard defines what accounting policies are and distinguishes them from estimation techniques.

The objective of FRS 18 is to ensure that for all material items:

- adopts the accounting policies most appropriate
- The accounting policies are reviewed regularly to ensure that they remain appropriate
- Sufficient information is disclosed in the financial statements

The standard states that accounting policies are those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of material items are to be reflected in the financial statements.

Any material item must firstly be:

- *Recognised* in the financial statements as, either assets, liabilities, gains, losses, and changes to shareholders funds.
- The *measurement* basis for the transaction must be selected.
- The *presentation* of the information in the financial statements must enable the users to understand the policies adopted.

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FRS 18

FRS 18 states that accounting policies should be adopted that enable a company's financial statements to give a true and fair view.

Out of all the accounting concepts the standard chooses two, going concern and accruals, for their pervasive role in selecting policies. FRS 18 replaced SSAP 2 which identified four fundamental concepts, going concern, accruals, prudence and consistency as part of the foundations of accounting. FRS 18 downgrades the influence of both the prudence concept (now desirable) and consistency concept.

The standard gives clear disclosure requirements about accounting policies and when changes occur in accounting policies. It also states that an entity should judge the appropriateness of its accounting policies against the following objectives:

- **Relevance.** Will it influence the economic decisions of the users of accounts?
- **Reliability.** Is it reliable and does it reflect the substance of the transaction?
- **Comparability.** Is it capable of being compared with similar information about the entity in past periods or similar information about other entities?
- **Understandability.** Can it be understood by the users of financial statements?

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International Financial Reporting Standards

In 2005 all listed companies worldwide will be obliged to follow International Financial Reporting Standards and this will extend to all private companies by January 1 2007.

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