BUS7C2 Finance and Accounting for Business

Tutorial 1 – Assignment 1 Discussion

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Assignment Brief.

You are required to produce a report of 2,000 words applying these details.

A. Evaluate the removal in 2010 and reinstatement in 2018 of prudence in the IASB Conceptual Framework. What were the primary concerns, and how did stakeholders influence its reinstatement? What are the implications for financial reporting? **(45 marks).**

B. Discuss the impact of prudence in enhancing financial stability or limiting growth opportunities for SMEs. **(35 marks).**

Please note:

i) To achieve good marks your assignment should show detailed evidence of research.

ii) 20% of the marks available are for good presentation and quality of English (10%), and proper referencing according to the Wrexham University Harvard method (10%); **(20 marks)**

iii) This assignment carries **50%** of the total module weighting

(Total 100 marks)

Submission Date : 31st July 2025

IAS: International Accounting Standard

IFRS: International Financial Reporting Standard

In the past, **international accounting standards** were issued by the Board of the **International Accounting Standards Committee** (IASC).

Since 2001, the new set of **standards** has been known as the **international financial reporting standards (IFRS)** and has been issued by the **International Accounting Standards Board - IASB**

The IASB’s Conceptual Framework

IASB – **International Accounting Standard Board**

The Conceptual Framework for Financial Reporting is a set of principles upon which IFRSs are developed.

It is not a standard itself, but it is useful to understand the background of the accounting environment.

A **conceptual framework** deals with fundamental **financial reporting** issues such as the objectives and users of **financial statements**, the characteristics that make accounting information useful, the basic elements of **financial statements** (e.g., assets, liabilities, equity, income, and expenses)

The **International Accounting Standards Board** (**IASB**) issued its '**Framework for the Preparation and Presentation of Financial Statements**' in ***1989.***

This is referred to as its **conceptual framework**

What is the Conceptual Framework?

It is a practical tool that assists:

- ❑ the IASB to develop Standards
- ❑ preparers to develop consistent accounting policies
- ❑ others to understand and interpret IFRS

- ✓ It underpins the decisions made by the IASB when setting Standards
- ✓ It will affect future Standards developed by the IASB

It addresses fundamental issues:

- ❑ What is the objective of financial reporting?
- ❑ What makes financial information useful?
- ❑ What are assets, liabilities, equity, income and expenses, when should they be recognised and how should they be measured, presented and disclosed?

Prudence

degree of caution in the adoption of accounting policies and estimates. Ensures that profits and assets are not overstated, while losses and liabilities are recognized as soon as they are likely

Timeline of IASB Conceptual Framework and Prudence

- **1989 –** Prudence included in the IASB Conceptual Framework as part of reliability.
- **2010 –** Prudence removed due to concerns that it conflicted with neutrality.
- **2013 –** Stakeholders, including investors and regulators, advocate for its return.
- **2015 –** IASB proposes reintroducing prudence in an Exposure Draft.
- **2018 –** Prudence reinstated as part of neutrality in the revised Conceptual Framework.

Prudence means being cautious and realistic when reporting financial information.

Prevents exaggeration—companies should not overstate profits or assets.

Ensures accountability—expenses and liabilities should not be underestimated.

Protects decision-makers—investors, lenders, and business owners rely on accurate reports.

Balances caution with neutrality—avoids excessive pessimism that may harm business growth.

Encourages financial stability—helps businesses prepare for uncertainties and risks.

Must be applied responsibly—too much prudence can make a company's financial position look weaker than it is.

Group Tasks – *Divide Class into 4 or 5 Groups*

Each group should discuss and present their suggested answers to the following question

1. What is the objective of financial reporting?
2. What qualities makes financial information useful?
3. Identify 3 users of financial information and their primary use
4. For each group of user identified above, do you think they will prefer accounts prepared based on prudence or not? State the reason for your position on each user group

Group Tasks – Guide/Suggestion

1. What is the objective of financial reporting?

The primary objective of financial reporting is to ***provide useful financial information*** about a company's performance and financial position to stakeholders.

It enables investors, creditors, regulators, and other users to make informed decisions regarding investment, lending, and business operations.

2. What qualities make financial information useful?

Financial information is useful when it is:

- **Relevant** – It provides timely and meaningful insights for decision-making.
- **Faithfully Represented** – It is complete, neutral, and free from errors.
- **Comparable** – Users can assess financial trends across companies and time periods.
- **Verifiable** – Independent parties can confirm its accuracy.
- **Understandable** – It is presented clearly, making it accessible to all users.

3. Identify three users of financial information and their primary use:

1. **Investors** – Assess financial performance and risks to make investment decisions.
2. **Managers** – Use financial data for planning, budgeting, and strategic decision-making.
3. **Regulators** – Ensure companies comply with financial laws and protect stakeholders.

Group Tasks – Guide/Suggestion

4. Would each user prefer accounts prepared based on prudence? Why?

- **Investors – Yes, to an extent.** Prudence helps prevent misleading profit overstatements and ensures realistic financial expectations. However, excessive prudence could limit insights into a company's true potential.
- **Managers – It depends.** Some managers prefer prudence for financial stability and risk management, while others may prefer more optimistic reporting for business growth and investment attraction.
- **Regulators – Yes.** Regulators favour prudence because it promotes transparency, prevents financial manipulation, and ensures accurate reporting, protecting markets and stakeholders.

Thank you, very much!

Any questions?

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