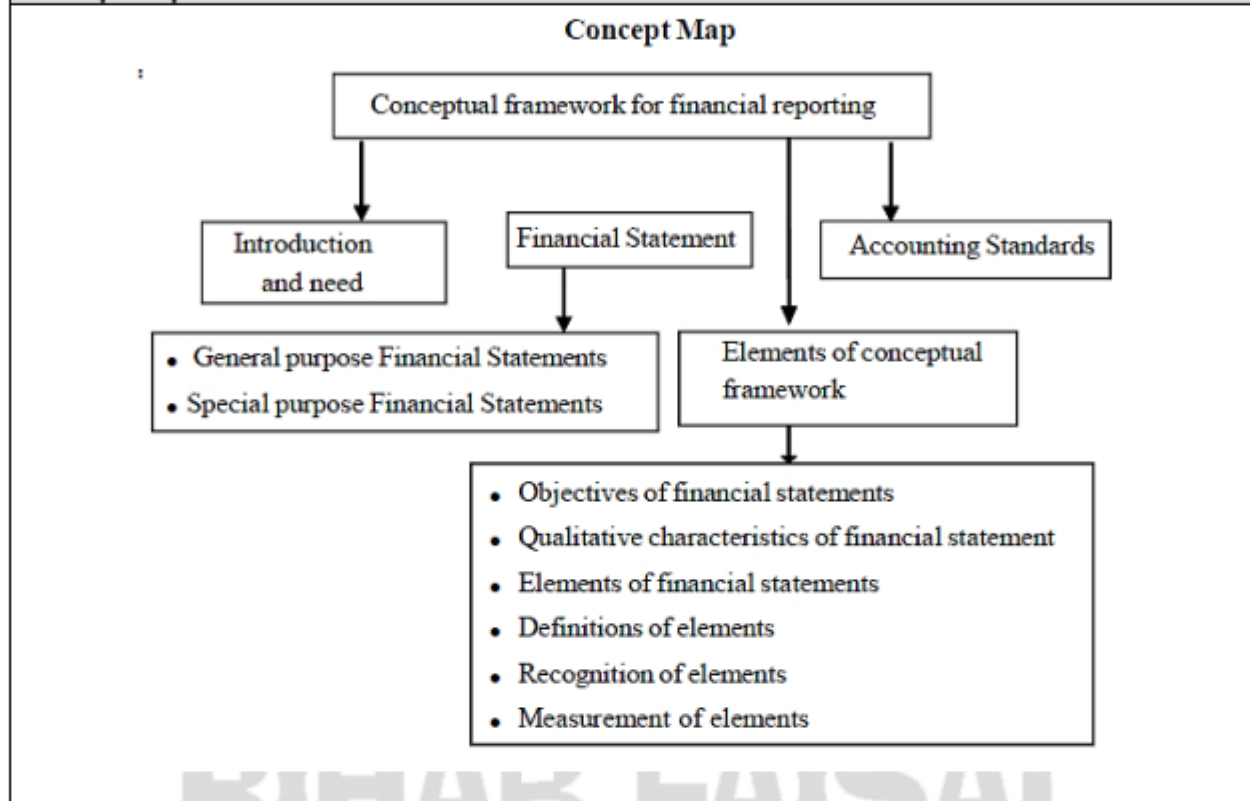
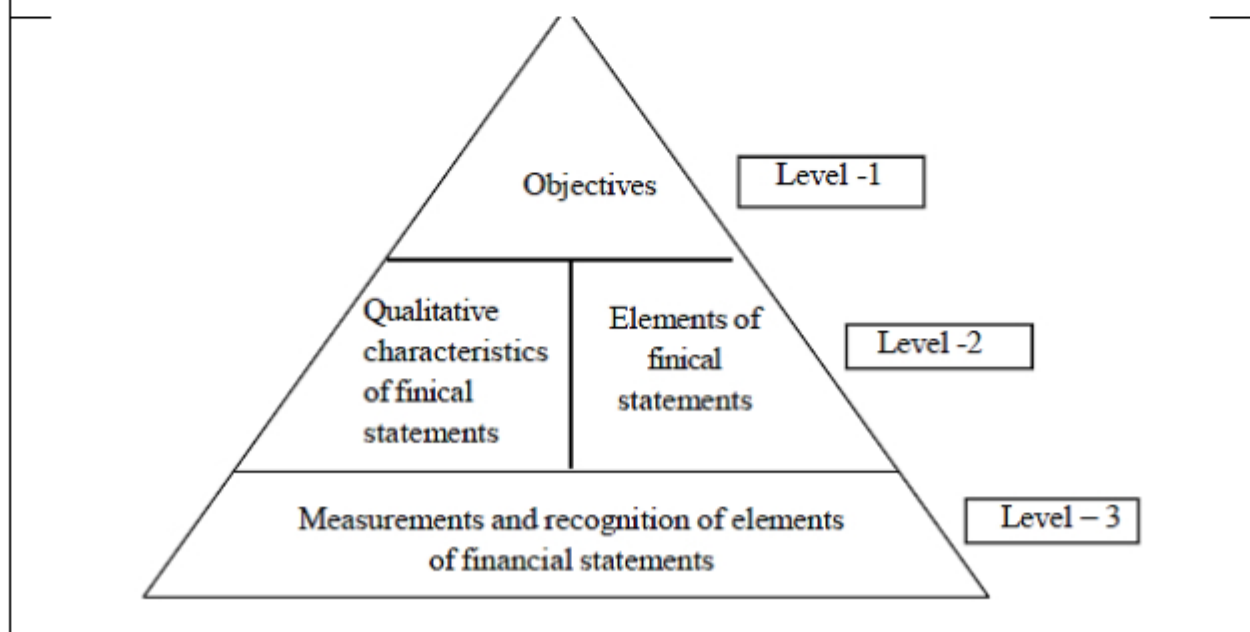


11.2 | Conceptual Framework for Financial Reporting

- Conceptual framework for financial reporting
- Types of financial statements
- Elements of the conceptual framework

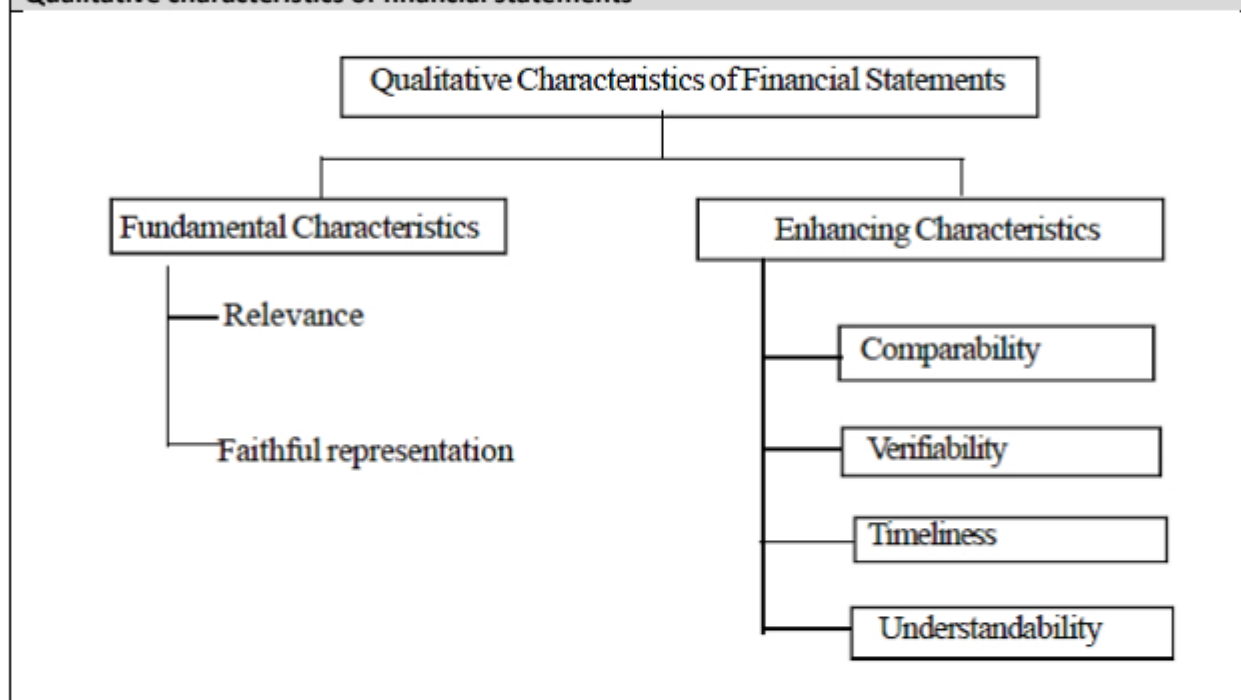
Concept map**Conceptual framework for financial reporting**

A set of rules which helps to make functions and limitations of financial accounting and financial statements is known as conceptual framework.



General purpose financial statements

- The objectives of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources of the entity.
- General purpose financial statements provide financial performance, financial position and changes in financial position of an entity. Underlying assumption in preparing financial statements is the Going Concern concept.

Qualitative characteristics of financial statements**Relevance**

- Relevant financial information has the capability of making a difference in the decision made by users. If financial information is to be useful it must consist the following sub characteristics:
 - Predictive value
 - Confirmatory value
 - Materiality

Faithful representation

- Economic phenomena represented in financial reports should be faithfully presented. To be a perfectly faithful representation, a depiction would have the following characteristics:
 - Completeness
 - Neutrality

Comparability

- If data of one entity can be compared with similar information about entities and with similar information about the same entity for another period, this is known as comparability.

Verifiability

- Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.

Timeliness

- Timeliness means having information available to decision making in time to be capable of influencing their decisions.

Understandability

- Presenting information clearly and concisely makes it understandable to the users.

Elements of the conceptual framework

- Contents of financial statements represent the elements. Information provided by the elements helps to achieve objectives of financial reporting. There are five elements:
 - Assets
 - Liabilities
 - Equity
 - Income
 - Expenses

Assets

- An asset is a resource controlled by the entity as a result of past transactions / events and from which future economic benefits are expected to inflow to the entity.
- Following are the three main characteristics that should be possessed by an asset according to the above definition:
 - Ability to generate economic benefits
 - Can be controlled by the entity
 - As a result of a past transaction or event

Liabilities

- A liability is a present obligation of the entity arising from past transactions/events. The settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- Following are the three main characteristics that should be possessed by a liability according to the above definition:
 - Probability for an outflow of resources embodying economic benefits resulting from the settlement of a present obligation
 - There should be a present obligation
 - As a result of a past transaction or event

