AASB Framework **AASB CF 2013-1**

December 2013

Amendments to the Australian Conceptual Framework

Australian Government

Australian Accounting Standards Board

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ISSN 1035-3631

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The AASB pronouncement AASB CF 2013-1 *Amendments to the Australian Conceptual Framework* is set out in paragraphs 1 – 13.

PREFACE

Introduction

This pronouncement makes amendments to the Australian Accounting Standards Board's (AASB) *Framework for the Preparation and Presentation of Financial Statements* (*Framework*).

The amendments are the result of the first stage of the AASB's process of revising its conceptual framework to incorporate developments by the International Accounting Standards Board (IASB) following the issuance of the revised IASB *Conceptual Framework for Financial Reporting* in September 2010. At the time of issue of this pronouncement, the IASB has published, in its revised framework document, Chapter 1 *The objective of general purpose financial reporting* and Chapter 3 *Qualitative characteristics of useful financial information*. The IASB's conceptual framework remains under review, and it is planned that further revised chapters will be issued.

As an interim step, in anticipation of further revisions to the IASB conceptual framework, the AASB is retaining its existing *Framework*, amended to the extent necessary to incorporate the IASB's Chapters 1 and 3 as an Appendix to the *Framework*. As the IASB's Chapters are expressed from the perspective of for-profit entities, the AASB has also added not-for-profit specific paragraphs, where necessary, to help clarify the concepts from the perspective of not-for-profit entities in the private and public sectors.

The consequences of these amendments for those using the *Framework* and Australian Accounting Standards is that previous guidance on the objective and the qualitative characteristics of financial statements, as well as the guidance previously available in Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting*, are now superseded. The revised guidance includes a restatement of the objective of general purpose financial reporting, and reconsideration of the qualitative characteristics that identify useful financial information. Consequential amendments to Accounting Standards (including Interpretations) arising from these revisions are made in Accounting Standard AASB 2013-9 *Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.*

Main Features of this Pronouncement

Application Date

This pronouncement makes amendments to the *Framework* for periods ending on or after 20 December 2013, with allowance for earlier application.

Main Amendments

This pronouncement replaces the guidance in the *Framework* on the objective of general purpose financial reporting and the qualitative characteristics of useful financial information with, as an integral part of the *Framework*, the Appendix: *Objective and Qualitative Characteristics*. This pronouncement also withdraws SAC 2.

ACCOUNTING FRAMEWORK AASB CF 2013-1

AMENDMENTS TO THE AUSTRALIAN CONCEPTUAL FRAMEWORK

Objective

1 The objective of this pronouncement is to make amendments to the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*) in relation to the objective of general purpose financial reporting and the qualitative characteristics of useful financial information, and to withdraw Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting*.

Application

2 This pronouncement applies to general purpose financial statements relating to periods ending on or after 20 December 2013.

3 This pronouncement may be applied to periods beginning on or after 1 January 2005 that end before 20 December 2013. When an entity applies this pronouncement to such a period, it should disclose that fact.

4 This pronouncement uses underlining, striking out and other typographical material to identify some of the amendments to the *Framework* in order to make the amendments more understandable. However, the amendments made by this pronouncement to the *Framework* do not include that underlining, striking out or other typographical material.

Amendments to the *Framework*

5 Paragraph Aus1.1 is amended as follows (new text is underlined and deleted text is struck through):

Aus1.1 The concepts in this *Framework* are not set out as requirements for the purpose of preparing general purpose financial statements. This is consistent with the:

(a) <u>[deleted]</u> ~~purpose of Statements of Accounting Concepts set out in Policy Statement 5 *The Nature and Purpose of Statements of Accounting Concepts*;~~

(b) [deleted] ~~non-mandatory status of Statements of Accounting Concepts under Professional Statement APS 1 *Conformity with Accounting Standards*; and~~

(c) *Australian Securities and Investments Commission Act 2001*, section 227(1).

6 Paragraph Aus1.4 is amended as follows (new text is underlined and deleted text is struck through):

Aus1.4 When applicable, this *Framework* supersedes:

(a) Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting* as issued in August 1990;

(b)~~(a)~~ Statement of Accounting Concepts SAC 3 *Qualitative Characteristics of Financial Information* as issued in August 1990; and

(c)~~(b)~~ Statement of Accounting Concepts SAC 4 *Definition and Recognition of the Elements of Financial Statements* as issued in March 1995.

7 Paragraph Aus1.5 is amended as follows (new text is underlined):

Aus1.5 SAC 2, SAC 3 and SAC 4 remain applicable until superseded by this *Framework*.

8 Paragraphs 6–22 are deleted. They are superseded by Chapter 1 in the Appendix: *Objective and Qualitative Characteristics*. Notes concerning their deletion are added as follows:

6–8 [Deleted – replaced by concepts in the Appendix, Chapter 1]

Users and Their Information Needs

9–11 [Deleted – replaced by concepts in the Appendix, Chapter 1]

The Objective of Financial Statements

12–21 [Deleted – replaced by concepts in the Appendix, Chapter 1]

Underlying Assumptions

Accrual Basis

22 [Deleted]

9 Paragraphs 24–46 are deleted. They are superseded by Chapter 3 in the Appendix: *Objective and Qualitative Characteristics*. A note concerning their deletion is added as follows:

Qualitative Characteristics of Financial Statements

24–46 [Deleted – replaced by concepts in the Appendix, Chapter 3]

10 The footnote to paragraph 72, which refers to paragraph Aus15.1, is amended to refer instead to paragraph AusOB3.1.

11 A footnote is added to the end of paragraph 83 as follows:

Information is reliable when it is complete, neutral and free from error.

12 Paragraph 84 is amended as follows (new text is underlined and deleted text is struck through):

84 In assessing whether an item meets these criteria, and therefore qualifies for recognition in the financial statements, regard needs to be given to the materiality considerations discussed in ~~paragraphs 29 and 30~~ Chapter 3 *Qualitative characteristics of useful financial information*. The interrelationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, income or a liability.

13 The Appendix: *Objective and Qualitative Characteristics* is added as set out below (see pages 9–25).

APPENDIX

OBJECTIVE AND QUALITATIVE CHARACTERISTICS

This appendix is an integral part of the Framework for the Preparation and Presentation of Financial Statements *(*Framework*) and has the same status as other parts of the* Framework*. The appendix comprises two chapters – Chapter 1: The objective of general purpose financial reporting and Chapter 3: Qualitative characteristics of useful financial information.*

CHAPTER 1: THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING

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CHAPTER 1: THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING

Introduction

OB1 The objective of general purpose financial reporting forms the foundation of the *Framework*. Other aspects of the *Framework*—a reporting entity concept, the qualitative characteristics of, and the constraint on, useful financial information, elements of financial statements, recognition, measurement, presentation and disclosure—flow logically from the objective.

Objective, usefulness and limitations of general purpose financial reporting

OB2 The objective of general purpose financial reporting[1] 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 to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

AusOB2.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph OB2. For example, parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity, taxpayers decide who should represent them in government, donors decide whether to donate resources to an entity, and recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers. In relation to not-for-profit entities, where pertinent, all references in this *Framework* to 'existing

1 Throughout this *Framework*, the terms *financial reports* and *financial reporting* refer to *general purpose financial reports* and *general purpose financial reporting* unless specifically indicated otherwise.

and potential investors, lenders and other creditors' (and related terms) should be read as a reference to this broader range of users.

OB3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors', lenders' and other creditors' expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity.

AusOB3.1 In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or non-financial), which in turn may depend, at least in part, on the entity's prospects for future net cash inflows. Users will, for example, be interested in the capability of the entity's resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, references in this *Framework* to 'assessing prospects for future net cash inflows' (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph.

OB4 To assess an entity's prospects for future net cash inflows, existing and potential investors, lenders and other creditors need information about the resources of the entity, claims against the entity, and how efficiently and effectively the entity's management and governing board[2] have discharged their responsibilities to use the entity's resources. Examples of such responsibilities include protecting the entity's resources from unfavourable effects of economic factors such as price and technological changes and ensuring that the entity complies with applicable laws, regulations and contractual provisions.

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2 Throughout this *Framework,* the term *management* refers to *management and the governing board of an entity* unless specifically indicated otherwise.

Information about management's discharge of its responsibilities is also useful for decisions by existing investors, lenders and other creditors who have the right to vote on or otherwise influence management's actions.

OB5 Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

OB6 However, general purpose financial reports do not and cannot provide all of the information that existing and potential investors, lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

OB7 General purpose financial reports are not designed to show the value of a reporting entity; but they provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity.

OB8 Individual primary users have different, and possibly conflicting, information needs and desires. The Board, in developing financial reporting standards, will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting entity from including additional information that is most useful to a particular subset of primary users.

OB9 The management of a reporting entity is also interested in financial information about the entity. However, management need not rely on general purpose financial reports because it is able to obtain the financial information it needs internally.

OB10 Other parties, such as regulators and members of the public other than investors, lenders and other creditors, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.[3]

OB11 To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The

3 For not-for-profit entities, see paragraph AusOB2.1.

Framework establishes the concepts that underlie those estimates, judgements and models. The concepts are the goal towards which the Board and preparers of financial reports strive. As with most goals, the *Framework*'s vision of ideal financial reporting is unlikely to be achieved in full, at least not in the short term, because it takes time to understand, accept and implement new ways of analysing transactions and other events. Nevertheless, establishing a goal towards which to strive is essential if financial reporting is to evolve so as to improve its usefulness.

Information about a reporting entity's economic resources, claims against the entity and changes in resources and claims

OB12 General purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity's economic resources and the claims against the reporting entity. Financial reports also provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims. Both types of information provide useful input for decisions about providing resources to an entity.

Economic resources and claims

OB13 Information about the nature and amounts of a reporting entity's economic resources and claims can help users to identify the reporting entity's financial strengths and weaknesses. That information can help users to assess the reporting entity's liquidity and solvency, its needs for additional financing and how successful it is likely to be in obtaining that financing. Information about priorities and payment requirements of existing claims helps users to predict how future cash flows will be distributed among those with a claim against the reporting entity.

OB14 Different types of economic resources affect a user's assessment of the reporting entity's prospects for future cash flows differently. Some future cash flows result directly from existing economic resources, such as accounts receivable. Other cash flows result from using several resources in combination to produce and market goods or services to customers. Although those cash flows cannot be identified with individual economic resources (or claims), users of financial reports need to know the nature and amount of the resources available for use in a reporting entity's operations.

Changes in economic resources and claims

OB15 Changes in a reporting entity's economic resources and claims result from that entity's financial performance (see paragraphs OB17–OB20) and from other events or transactions such as issuing debt or equity instruments (see paragraph OB21). To properly assess the prospects for future cash flows from the reporting entity, users need to be able to distinguish between both of these changes.

OB16 Information about a reporting entity's financial performance helps users to understand the return that the entity has produced on its economic resources. Information about the return the entity has produced provides an indication of how well management has discharged its responsibilities to make efficient and effective use of the reporting entity's resources. Information about the variability and components of that return is also important, especially in assessing the uncertainty of future cash flows. Information about a reporting entity's past financial performance and how its management discharged its responsibilities is usually helpful in predicting the entity's future returns on its economic resources.

Financial performance reflected by accrual accounting

OB17 Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting entity's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting entity's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the entity's past and future performance than information solely about cash receipts and payments during that period.

OB18 Information about a reporting entity's financial performance during a period, reflected by changes in its economic resources and claims other than by obtaining additional resources directly from investors and creditors (see paragraph OB21), is useful in assessing the entity's past and future ability to generate net cash inflows. That information indicates the extent to which the reporting entity has increased its available economic resources, and thus its capacity for generating net cash inflows through its operations rather than by obtaining additional resources directly from investors and creditors.

AusOB18.1 In respect of not-for-profit entities, information useful for assessing an entity's past and future ability to generate net cash inflows through its operations is, in turn, useful for assessing whether income from taxpayers, donors and other sources was sufficient, and is likely to remain sufficient, to meet the cost of a given volume and quality of goods and services the entity provides.

OB19 Information about a reporting entity's financial performance during a period may also indicate the extent to which events such as changes in market prices or interest rates have increased or decreased the entity's economic resources and claims, thereby affecting the entity's ability to generate net cash inflows.

Financial performance reflected by past cash flows

OB20 Information about a reporting entity's cash flows during a period also helps users to assess the entity's ability to generate future net cash inflows. It indicates how the reporting entity obtains and spends cash, including information about its borrowing and repayment of debt, cash dividends or other cash distributions to investors, and other factors that may affect the entity's liquidity or solvency. Information about cash flows helps users understand a reporting entity's operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance.

Changes in economic resources and claims not resulting from financial performance

OB21 A reporting entity's economic resources and claims may also change for reasons other than financial performance, such as issuing additional ownership shares. Information about this type of change is necessary to give users a complete understanding of why the reporting entity's economic resources and claims changed and the implications of those changes for its future financial performance.

CHAPTER 3: QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

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CHAPTER 3: QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

Introduction

QC1 The qualitative characteristics of useful financial information discussed in this chapter identify the types of information that are likely to be most useful to the existing and potential investors, lenders and other creditors for making decisions about the reporting entity on the basis of information in its financial report (financial information).

QC2 Financial reports provide information about the reporting entity's economic resources, claims against the reporting entity and the effects of transactions and other events and conditions that change those resources and claims. (This information is referred to in the *Framework* as information about the economic phenomena.) Some financial reports also include explanatory material about management's expectations and strategies for the reporting entity, and other types of forward-looking information.

QC3 The qualitative characteristics of useful financial information[4] apply to financial information provided in financial statements, as well as to financial information provided in other ways. Cost, which is a pervasive constraint on the reporting entity's ability to provide useful financial information, applies similarly. However, the considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information. For example, applying them to forward-looking information may be different from applying them to information about existing economic resources and claims and to changes in those resources and claims.

Qualitative characteristics of useful financial information

QC4 If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

4 Throughout this *Framework*, the terms *qualitative characteristics* and *constraint* refer to the qualitative characteristics of, and the constraint on, useful financial information.

Fundamental qualitative characteristics

QC5 The fundamental qualitative characteristics are *relevance* and *faithful representation*.

Relevance

QC6 Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

QC7 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

QC8 Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.

QC9 Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

QC10 The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, revenue information for the current year, which can be used as the basis for predicting revenues in future years, can also be compared with revenue predictions for the current year that were made in past years. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

QC11 Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

QC12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be *complete*, *neutral* and *free from error*. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximise those qualities to the extent possible.

QC13 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, a complete depiction of a group of assets would include, at a minimum, a description of the nature of the assets in the group, a numerical depiction of all of the assets in the group, and a description of what the numerical depiction represents (for example, original cost, adjusted cost or fair value). For some items, a complete depiction may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.

QC14 A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant financial information is, by definition, capable of making a difference in users' decisions.

QC15 Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.

QC16 A faithful representation, by itself, does not necessarily result in useful information. For example, a reporting entity may receive property, plant and equipment through a government grant. Obviously, reporting that an entity acquired an asset at no cost would faithfully represent its cost, but that information would probably not be very useful. A slightly more subtle example is an estimate of the amount by which an asset's carrying amount should be adjusted to reflect an impairment in the asset's value. That estimate can be a faithful representation if the reporting entity has properly applied an appropriate process, properly described the estimate and explained any uncertainties that significantly affect the estimate. However, if the level of uncertainty in such an estimate is sufficiently large, that estimate will not be particularly useful. In other words, the relevance of the asset being faithfully represented is questionable. If there is no alternative representation that is more faithful, that estimate may provide the best available information.

Applying the fundamental qualitative characteristics

QC17 Information must be both relevant and faithfully represented if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.

QC18 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon that has the potential to be useful to users of the reporting entity's financial information. Second, identify the type of information about that phenomenon that would be most relevant if it is available and can be faithfully represented. Third, determine whether that information is available and can be faithfully represented. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.

Enhancing qualitative characteristics

QC19 *Comparability*, *verifiability*, *timeliness* and *understandability* are qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered equally relevant and faithfully represented.

Comparability

QC20 Users' decisions involve choosing between alternatives, for example, selling or holding an investment, or investing in one reporting entity or another. Consequently, information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date.

QC21 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

QC22 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting entity or in a single period across entities. Comparability is the goal; consistency helps to achieve that goal.

QC23 Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

QC24 Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity.

QC25 Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.

Verifiability

QC26 Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent.

Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

QC27 Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, using the first-in, first-out method).

QC28 It may not be possible to verify some explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

Timeliness

QC29 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

QC30 Classifying, characterising and presenting information clearly and concisely makes it *understandable*.

QC31 Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore potentially misleading.

QC32 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Applying the enhancing qualitative characteristics

QC33 Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or not faithfully represented.

QC34 Applying the enhancing qualitative characteristics is an iterative process that does not follow a prescribed order. Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new financial reporting standard may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

The cost constraint on useful financial reporting

QC35 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

QC36 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

QC37 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. This results in more efficient functioning of capital markets and a lower cost of capital for the economy as a whole. An individual investor, lender or other creditor also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

QC38 In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed financial reporting standard, the Board seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that standard. In most situations, assessments are based on a combination of quantitative and qualitative information.

QC39 Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, the Board seeks to consider costs and benefits in relation to financial reporting generally, and not just in relation to individual reporting entities. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all entities. Differences may be appropriate because of different sizes of entities, different ways of raising capital (publicly or privately), different users' needs or other factors.

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, Accounting Framework AASB CF 2013-1 Amendments to the Australian Conceptual Framework.

Background to the Amendments Introduced Through AASB CF 2013-1

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB) considerations in developing AASB CF 2013-1. Individual Board members gave greater weight to some factors than to others.

BC2 The amendments to the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*) result from proposals that were included in AASB Exposure Draft ED 164 *An improved Conceptual Framework for Financial Reporting: The Objective of Financial Reporting and Qualitative Characteristics and Constraints of Decision-useful Financial Reporting Information* (AASB ED 164) published in June 2008. AASB ED 164 incorporated the International Accounting Standards Board's (IASB) May 2008 Exposure Draft of the same name.

BC3 The IASB has been undertaking a review of its conceptual framework for several years. Consistent with the AASB's policy of IFRS adoption, the AASB has been closely monitoring the work of the IASB. In September 2010, the IASB issued a revised IASB *Conceptual Framework for Financial Reporting* (IASB *Conceptual Framework*) containing two new chapters – Chapter 1: *The objective of general purpose financial reporting* and Chapter 3: *Qualitative characteristics of useful financial information*. The revised IASB *Conceptual Framework* includes a 'placeholder' for Chapter 2: *The reporting entity* and Chapter 4, which carries over the text of the IASB's *Framework for the Preparation and Presentation of Financial Statements*[1] (IASB *Framework* 2001) that was not superseded by Chapters 1 and 3 and therefore deals with concepts not yet reconsidered by the IASB. Further revised chapters are planned – see paragraph BC4 below.

1 The IASC's *Framework for the Preparation and Presentation of Financial Statements* (1989) was adopted by the IASB in April 2001.

BC4 As part of its review, the IASB has also issued:

(a) in March 2010, IASB Exposure Draft ED/2010/2 *Conceptual Framework for Financial Reporting: The Reporting Entity* (incorporated into AASB Exposure Draft ED 193 of the same name, also issued in March 2010); and

(b) in July 2013, IASB Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* (incorporated into AASB Invitation to Comment ITC 29 *A Review of the IASB's Conceptual Framework for Financial Reporting*, also issued in July 2013). The Discussion Paper sets out the IASB's preliminary views on concepts relating to the elements of financial statements, recognition and derecognition, measurement, presentation and disclosure, and the IASB's plan to progress its reporting entity proposals.

BC5 In addition to the aspects of a conceptual framework noted in paragraph BC4(b) above, the IASB Discussion Paper DP/2013/1 also notes that while the IASB does not intend to fundamentally reconsider Chapter 1 and Chapter 3 as issued in September 2010, changes to these chapters may be necessary if work on the other aspects highlights areas in these chapters that require clarification or amendment. The IASB has also invited comment where respondents believe that changes are necessary to the existing chapters.

Application of the Amendments to For-Profit Entities

BC6 The Board decided to make Chapters 1 and 3 of the September 2010 IASB *Conceptual Framework* applicable to for-profit entities, consistent with its IFRS-adoption policy. The Board decided to do this pragmatically by amending the *Framework* for the revised guidance rather than issuing a new framework document, pending completion of the IASB project.

BC7 The Board considered whether to introduce additional guidance in respect of for-profit entities in the public sector and decided that additional guidance is not necessary at this time.

Application of the Amendments to Not-for-Profit Entities

BC8 As part of its due process, through AASB ED 164, the AASB invited constituents to comment on the issues that would need to be considered if the proposed concepts relating to the objective of financial reporting and the qualitative characteristics of useful financial information were also to be applied to not-for-profit entities. Consistent with comments made in the joint report *A Report on the application to not-for-profit entities in the private and public sectors* (July 2008)[2] on the not-for-profit implications of the IASB Exposure Draft on these concepts, some respondents to AASB ED 164 commented that more emphasis would need to be given to accountability or stewardship, and less to reporting information for assessing cash flows, for the concepts to be suitable for such entities. Respondents were also concerned that a user group focussed on capital providers was too narrow to be a proxy for the common information needs of users of general purpose financial reports of not-for-profit entities.

BC9 The Board noted that the current focus of the IASB is on business entities in the private sector and that the IASB appears to no longer intend to consider, in the manner it initially proposed, the applicability of its revised concepts to not-for-profit entities in the private sector. In light of this, the Board decided to make Chapters 1 and 3 of the September 2010 IASB *Conceptual Framework* applicable to not-for-profit entities at the same time as for-profit entities, to be consistent with its IFRS-adoption and transaction-neutral policies. However, having regard to the feedback received on AASB ED 164 (see paragraph BC8), the Board decided to include additional guidance in respect of not-for-profit entities to the extent that matters are not adequately addressed by the IASB in Chapters 1 and 3 (see paragraphs BC11–BC15 below).

BC10 After the IASB has completed its review of its conceptual framework, the AASB intends reviewing the not-for-profit guidance included in its conceptual framework. As part of this process, the AASB will have further regard to the International Public Sector Accounting Standards Board's (IPSASB) decisions about its conceptual framework, particularly where the IPSASB's decisions are complementary to the IASB's decisions.[3]

2 The Report was prepared by the Chairs and senior staff of the Australian Accounting Standards Board, Canadian Accounting Standards Board, New Zealand Financial Reporting Standards Board and the United Kingdom Accounting Standards Board.

3 In January 2013, the IPSASB issued *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* addressing some aspects of its conceptual framework: the role and authority of the conceptual framework, the objective and users of general purpose financial reports, qualitative characteristics, and the reporting entity. Chapters addressing other concepts, including the definition and recognition of elements of financial statements, measurement, and presentation, are being developed by the IPSASB.

Additional Guidance for Not-for-Profit Entities

BC11 The Board noted comments about the importance of accountability of management in respect of not-for-profit entities, and considered whether to make specific reference to the accountability (or stewardship) of management for the resources entrusted to it, similar to statements made in superseded paragraph 14 of the *Framework* and in Statement of Accounting Concepts SAC 2 *Objective of General Purpose Financial Reporting* (e.g. paragraphs 14, 27 and 44). The Board noted the IASB's acknowledgement of the role of stewardship and its rationale for not using the term 'stewardship' within Chapter 1. Paragraphs BC1.27 and BC1.28 of the IASB's Basis for Conclusions on Chapter 1 of the IASB *Conceptual Framework* (September 2010) state:

> BC1.27 … The Board did not intend to imply that assessing prospects for future cash flow or assessing the quality of management's stewardship is more important than the other. Both are important for making decisions about providing resources to an entity, and information about stewardship is also important for resource providers who have the ability to vote on, or otherwise influence, management's actions.
>
> BC1.28 The Board decided not to use the term *stewardship* in the chapter because there would be difficulties in translating it into other languages. Instead, the Board described what stewardship encapsulates. Accordingly, the objective of financial reporting acknowledges that users make resource allocation decisions as well as decisions as to whether management has made efficient and effective use of the resources provided.

BC12 The Board noted that while the provision of information for accountability purposes is an important function of general purpose financial reporting, including in relation to not-for-profit entities, the rendering of accountability by reporting entities through general purpose financial reporting can be regarded as encompassed by the broader objective of providing information useful for making decisions about the allocation of resources. This is on the basis that users ultimately require accountability-related information for resource allocation decisions. Accordingly, in response to constituent feedback on AASB ED 164 in relation to accountability (see paragraph BC8), the Board concluded that the additional guidance it has included in respect of not-for-profit entities is consistent with the view that management accountability is encompassed within the objective of general purpose financial reporting of not-for-profit entities as described in the *Framework*.

BC13 In particular, the Board decided to develop additional guidance for not-for-profit entities that would:

(a) identify the broad range of users of general purpose financial reports of not-for-profit entities (see paragraph AusOB2.1); and

(b) adequately acknowledge that such users of general purpose financial reports of not-for-profit entities have common information needs relating to:

(i) how well the entity is meeting its objectives that are not primarily related to cash generation (see paragraphs AusOB3.1 and AusOB18.1); and

(ii) the ability of the entity's available resources to deliver future goods and services (see paragraph AusOB3.1).

In developing this not-for-profit specific guidance, the Board gave consideration to guidance included in the IPSASB conceptual framework chapters published in January 2013.

BC14 With regard to paragraph BC13(a), consistent with the IPSASB's *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (and superseded paragraph 17 of SAC 2), the Board decided to particularly identify taxpayers as one of the users of general purpose financial reports of not-for-profit entities in paragraph AusOB2.1. As noted by the IPSASB, taxpayers usually provide resources to governments and other public sector entities involuntarily. In addition, as recipients of goods or services from public sector entities, taxpayers often do not have the discretion to choose an alternative supplier of those goods and services. Consequently, they have little direct or immediate capacity to make decisions about whether to provide resources to the government, the resources to be allocated for the provision of goods or services by a public sector entity or whether to purchase or consume the goods or services provided. However, they can make decisions about their voting preferences and representations they make to elected officials or other representative bodies based on information contained in general purpose financial reports – these decisions may have resource allocation consequences for certain not-for-profit entities.

BC15 With regard to paragraph BC13(b), the Board concluded that the common information needs of users of general purpose financial reports of not-for-profit entities include the entity's ability to achieve both its financial and non-financial objectives. For example, taxpayers may be interested in whether a not-for-profit entity in the public sector is delivering the services expected of it, that is, whether it is achieving its objectives and doing so economically and efficiently. Other resource providers, such as creditors, may principally be interested in the entity's ability to generate future cash inflows for timely payment of the entity's obligations to them; however, they may be indirectly concerned about the extent to which the entity is achieving its non-financial objectives, since the ability of the entity to generate future cash inflows will depend on its performance in this regard. The Board decided that it was important for such common user needs to be explicitly acknowledged in the amended chapters.

Other Significant Issues

Status of the *Framework*

BC16 The Board decided to take this opportunity to amend paragraph Aus1.1 of the *Framework* to remove the references to superseded or withdrawn pronouncements. Policy Statement 5 *The Nature and Purpose of Statements of Accounting Concepts* was withdrawn with effect for reporting periods beginning on or after 1 January 2005. Professional Statement APS 1 *Conformity with Accounting Standards and UIG Consensus Views* (which superseded APS 1 *Conformity of Accounting Standards*) has been superseded by Professional Standard APES 205 *Conformity with Accounting Standards* (December 2007), which does not make explicit reference to the non-mandatory status of the *Framework* or the Statements of Accounting Concepts.

Consequences for SAC 2

BC17 Superseded paragraph Aus14.1 of the *Framework* noted that a more detailed discussion of the objective of financial statements is provided in SAC 2. The Board decided that SAC 2 should be superseded as it is no longer necessary in light of the extensive discussion of the objective of general purpose financial reporting in paragraphs OB1 to OB21.

Status of SAC 1

BC18 The Board decided that the reporting entity concept expressed in Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* still has its place in Australia. The concept is currently used to help identify those entities that must apply Australian Accounting

Standards. Accordingly, the status of SAC 1 is retained (at least for now) in the Australian conceptual framework. The AASB intends to consider the manner in which to incorporate the IASB's forthcoming chapter on Reporting Entity (see paragraph BC4(a)) into the Australian conceptual framework in due course. This consideration would have regard to the interaction with other aspects of the IASB's Conceptual Framework project, other AASB projects (including reconsideration of the application of the reporting entity concept in Australia), and the AASB's approach to adopting IASB content for application by not-for-profit entities.

Effective Date of the Amendments

BC19 The Board decided that the amendments introduced by AASB CF 2013-1 should be applicable to general purpose financial statements of periods ending on or after the date of approval of the pronouncement, with allowance for earlier application.

BC20 The Board would not expect the incorporation of Chapters 1 and 3 of the IASB *Conceptual Framework* into the *Framework* to cause entities to change their accounting policies adopted under the existing *Framework*. Therefore, the application date provisions of these amendments would not be expected to have any practical significance. Nevertheless, the Board decided to identify an application date for these amendments and allow for earlier application, to avoid doubt about these aspects and for consistency with the application provisions of Accounting Standards.