Critical Analyses on Conceptual Framework for Financial Reporting

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Abstract. The 2018 revised Conceptual Framework for Financial Reporting by the International Accounting Standards Board represents a strategic response to the increasing complexity of the global economic environment and the diversification of financial information needs. This study focuses on three core revisions: (1) the redefinition of stewardship, reinforcing the accountability dimension of management's resource oversight; (2) the reinstatement of the prudence principle, establishing a financial reporting buffer mechanism under uncertainty; and (3) the paradigm shift in the definitions of assets and liabilities, replacing the "expected flow of economic benefits" with a "potential to produce economic benefits" criterion. Through systematic literature analysis, the findings reveal that while these revisions theoretically enhance the decision-usefulness of financial information, they also expose structural contradictions in practice, such as insufficient industry adaptability and ambiguous operational standards. The research not only elucidates the intrinsic logic of the conceptual framework's evolution but also provides policy optimization pathways for future IASB revisions within a cross-cultural context.

Keywords: IASB Conceptual Framework, Stewardship, Prudence Principle, Asset and Liability Definitions, Financial Reporting Quality.

1 Introduction

The Conceptual Framework for Financial Reporting (CF) serves as the foundational constitution for global accounting standards, providing theoretical bedrock for consistent, comparable, and decision-useful financial information. Its significance lies in harmonizing diverse accounting practices across jurisdictions while adapting to evolving economic realities—from traditional industries to digital ecosystems. As the IASB emphasizes, the CF's principles directly influence standard-setting, corporate reporting, and ultimately, capital market efficiency. The International Accounting Standards Board issued the revised Conceptual Framework for Financial Reporting in March 2018 to address the growing complexity of global financial reporting and emerging user needs [1-2]. Key revisions include the reintroduction of stewardship as a core objective, renewed emphasis on prudence, and updated definitions of assets and liabilities [1]. These changes aim to enhance transparency, accountability, and consistency in financial statements.

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The revisions were driven by the need to address emerging complexities in the global economy, including increased financial volatility, evolving investor demands, and the growing emphasis on corporate accountability. The profound implications of these revisions include enhancing corporate governance through strengthened stewardship requirements; preventing excessive optimism in financial reporting by reinstating the prudence principle; and clearing theoretical obstacles for recognizing new types of assets and liabilities in the digital economy era through updated accounting element definitions.

This study employs a tripartite analytical approach to systematically evaluate the theoretical and practical impacts of the 2018 Conceptual Framework, providing standard-setters with evidence for framework optimization while equipping practitioners with adaptive strategies

2 Critical Analysis

2.1 Stewardship

The 2018 IASB Conceptual Framework also restored stewardship as the core objective of financial reporting and reaffirmed management responsibility to use financial information and reporting to communicate about entity resources and their management, which was not quite as prominently emphasized in the prior 2010 Conceptual Framework, which aligned with information for decision making. Earlier, the concept of stewardship entailed evaluating how well management utilized the resources provided to them by shareholders and this was deemed crucial for investor trust and confidence [2]. This reintroduction relates to the stewardship theory, which argues that managers are stewards who, by performing firms, safeguard and enhance shareholders' wealth [3]. The change made in 2018 is in response to calls from stakeholders for information that will enable the users of financial statements to assess management, including their efficiency in the use of resources, in addition to the results generated on the economic front.

In many fields, the renewed emphasis on stewardship has significant real-world applications. For instance, in the banking industry, stewardship reporting emerged as essential after the 2008 financial crisis that revealed failures in risk management and accountability. Barclays and RBS have since incorporated stewardship practices to regain public trust where they present how management is protecting resources for its shareholders and the public via proper risk management and governance reporting [4]. This accords with Pelger who argues that stewardship improves decision-usefulness by providing stakeholders with accurate figures of management performance, fosters confidence among investors and sustains responsible business practices [5].

However, the actual application of stewardship has its challenges. Various industries define efficiency in resource utilization in various ways, thus making it difficult to draw clear-cut measures of accountability. As Orthaus, Pelger, and Kuhner point out, welfare's effectiveness is limited by differences in the legal treatment and conditions of work and business in various sectors [6]. Furthermore, the fact that the data are selfreported might bring in biases into playing, as companies will highlight only the good side of management performance and hide potential risks [6].

2.2 Prudence

When issuing the 2018 IASB Conceptual Framework, prudence and substance over form were reestablished as fundamental under Chapter 2 as they contribute to the qualitative characteristics of financial information [1]. As highlighted by Pelger, prudence refers to the exercise of caution when making judgments in uncertain situations to ensure that financial reporting is neither neutral nor conservative [5]. This means that while neutrality demands equal representation for both parties, prudence on the other hand will ensure that the valuations are not overstated, especially in the case of assets.

The significance of prudence lies in its ability to mitigate risk in financial reporting. For example, Barker and Teixeira claimed that the roles of prudence temper optimism in valuing assets to support neutrality, especially under conditions of uncertainty [7]. By reinstating prudence, the IASB pays respect to cautious judgment necessary particularly in highly volatile industries such as real estate or financial services industries. For instance, during the financial crisis that occurred in 2008, call options on mortgage-backed securities led to systemic risk and significant investor losses [8]. The re-emphasis of prudence makes companies avoid such errors by providing low figures on their capacities, which if applied during the occurrence of the crisis, may have significantly alleviated the outcome's magnitude. Nonetheless, as indicated by Georgiou, prudence is politically sensitive because it brings reporting bias in the degrees of financial solidity as observed by the stakeholders [9].

The principle of substance over form relates to cases in which legal structuring could camouflage the real value of contracts. For example, before the changes in the rules and regulations, business organizations employed off-balance-sheet leases as a tool to mask liabilities [10]. Through the requirement for the substance over form, the Framework guarantees that such leases are no longer concealed and distinguishable from the actual lease obligations, reflected clearly and accurately in the case of companies such as Delta or United where the leasing commitments are disclosed [11]. While matters such as prudence and substance over form improve the quality of financial statements, questions arise as to how it is practical to implement. The subjectivity of establishing the 'substance' and the conservative effect that prudence can bring are likely to result in diverse meanings across the sectors [12]. More refined and specific principles for applying these concepts in each industry respectively will stimulate and improve these principles while not undermining the depoliticized nature of financial reporting.

2.3 Definitions of Assets and Liabilities

The IASB in 2018, in the Conceptual Framework, Chapter 4 realigned the understanding of assets and liabilities while eliminating any issues related to probability thresholds that were ambiguous in financial reporting [1]. Assets were initially viewed as resources that are likely to yield future economic returns, with liabilities as obligations that will lead to the consumption of resources [2]. It was said that the term "expected" referred to a probability level, thus leading to confusion and contradiction. With assets being established as resources with the 'potential to produce economic benefits and liabilities as obligations the entity has 'no practical ability to avoid,' as pointed out by

Mondal, the IASB sought to rid recognition criteria of subjective probability judgements [13].

The changes made in the 2018 IASB framework make it possible to recognize items with potential future benefits even though their occurrence is remote [2]. For instance, although oil producers such as BP or Shell are yet to begin extracting crude from new fields, they can record such rights as valuable assets since they may turn out to be economically beneficial in the future [14]. This is in line with the study conducted by Kunkel, identifying handling of these rights as valuable business assets that might help investors assess strategic assets outside of the short-term profit-making [15]. Likewise, super-retailers with long-term and numerous leases, including Walmart and Tesco, cannot avoid future commitment even in the case of lease renegotiation. Earlier such obligations may have been less acknowledged if the chances of payment were unclear [16]. Under the 2018 Framework, these obligations are recognized as liabilities when companies can demonstrate that they have no practical ability to avoid or minimize those obligations, which provide for a better picture of future liabilities. However, this revision comes with its own difficulties. According to Barker and Teixeira, the key sources of interference highlighted include the uniqueness in relation to specific balance sheet items and lack of directions regarding interactions between components of the income statement [7]. Furthermore, the removal of the probability threshold may also cause inconsistency in application since companies can decide on the nature of the potential economic benefits or when they lack ‘practical ability to avoid’ certain obligations [1].

3 Criticism

This study has several methodological and content-related limitations that warrant careful consideration when interpreting the findings. The exclusive reliance on literature review methodology lacks empirical data validation, potentially creating a "theory-practice gap." The research primarily draws on literature published between 2018-2023, whereas the full impact of framework implementation requires longer observation periods. Particularly for significant amendments like the revised asset definition, corporations typically need 3-5 years of adaptation before complete effects emerge, making current evaluations potentially subject to prospective bias. The study inadequately addresses sector-specific variations in responding to framework revisions across industries like banking, manufacturing, and technology. For instance, the applicability of the prudence principle differs markedly between banking (under Basel III) and tech startups, yet this research lacks comparative cross-industry analysis. The literature sample predominantly originates from English-language academia, paying insufficient attention to implementation challenges in emerging markets, particularly BRICS nations. China's "substance over form" regulatory tradition may create cultural discount effects when implementing the framework compared to Europe's "principle-based" standard enforcement. The research fails to adequately account for digital transformation's disruptive impact on framework implementation. The revolutionary potential of blockchain technology in asset recognition and smart contracts in liability determination may fundamentally reshape the conceptual framework's theoretical foundations within the next five years. These limitations suggest that comprehensive evaluation of the 2018 Conceptual Framework requires developing a more multidimensional research paradigm that integrates quantitative and qualitative analysis, short-term observation with long-term tracking, and theoretical deduction with practical feedback to generate more actionable conclusions.

4 Conclusions

In developing the 2018 IASB Conceptual Framework, improvements were made with the goal of increasing transparency, accountability, and the faithful representation of financial statements. Reintroducing the stewardship principle enhances the notion of management accountability as well as comports with the stewardship theory and improves investor confidence. This is relevant for areas such as banking, but problematic when regarding applicability across different sectors. The return of prudence and substance over form improves reporting quality by encouraging caution and the reports' accuracy instead of their adherence to legally recognized forms, while prudence can damage neutrality. Finally, fair values with no probability thresholds require wider recognition but it raises the issue of more critical judgement in conditions that may be regarded as less effective.

In an effort to enhance the effectiveness of these changes the following improvements are proposed. For stewardship, the creation of various industry standards and performance indicators would facilitate consistency, which would improve the evaluation of managerial responsibility across industries. As far as prudence is concerned, the IASB could give more specific directions as to how and when prudence can be used to avoid going to the extreme of conservatism and provide appropriate valuation measures. In relation to the new criteria for assets and liabilities, more guidance on concepts such as 'potential economic benefits' and 'no practical ability to avoid' would be helpful for consistency, particularly in industries characterised by high levels of volatility.

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