



Conceptual Framework--Elements

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The views expressed in this presentation are those of the presenter.
Official positions of the FASB are reached only after extensive due process and deliberations

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The Current FASB Framework Project⁽¹⁾

What framework issues should be given priority?

- Issues that seem precedential to resolving other framework issues (presentation, an example)
- Framework deficiencies (measurement, an example)
- Issues that have been impediments to resolving standard-setting issues (elements definitions, an example)

⁽¹⁾FASB Framework Project activated in 2014.

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Added project to consider revisions to the definitions of financial statement elements (2017)

- Revisions to definitions of assets and liabilities
- Revisions to definitions of revenues, expenses, gains, and losses
- Remaining elements were not revised:
 - ✓ Equity (remain as assets minus liabilities)
 - ✓ Investments by owners
 - ✓ Distributions to owners
 - ✓ Comprehensive income

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Assets

“Assets are *probable future economic benefits* obtained or *controlled* by a particular entity as a result of *past transactions or events*.”

(Con 6, paragraph 25)

Problems:

- Probable⁽¹⁾
- Future economic benefits
- Controlled
- Past transactions or events

⁽¹⁾See footnote 18 (Con 6)

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Liabilities

“Liabilities are *probable future sacrifices of economic benefits* arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of *past transactions or events*.”

(Con 6, paragraph 35)

Problems:

- Probable⁽¹⁾
- Future sacrifices of economic benefits
- Obligations (uncertainties)
- Past transactions or events

⁽¹⁾See footnote 21 (Con 6)

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Asset and Liability Definitions

- An asset is a present right of the entity to an economic benefit.
- A liability is a present obligation of the entity to transfer an economic benefit.⁽¹⁾
 - ✓ Objective is to focus definitions on rights and obligations and not on the result of having rights and obligations and to correct perceived misunderstandings
 - ✓ Contingent assets/liabilities are assets or liabilities with uncertain outcomes

⁽¹⁾Transfers of assets and in some circumstances the entity's own shares would be the transfer of an economic benefit.

IFRS Framework - Assets

- FASB Definition of an Asset:
 - An asset is a present right of the entity to an economic benefit.
- IFRS Definition of an Asset:
 - A present economic resource controlled by the entity as a result of past events
 - An economic resource is a right that has the potential to produce economic benefits
- Both the IASB and FASB definitions focus on rights
- The FASB definition does not use the term *control* while the IASB definition does

IFRS Framework - Liabilities

- FASB Definition of a Liability:
 - A liability is a present obligation of the entity to transfer an economic benefit
- IFRS Definition of a Liability:
 - A present obligation of the entity to transfer an economic resource as a result of past events
 - An obligation is a duty or responsibility that the entity has no practical ability to avoid
- The IASB definition uses the concept of “no practical ability to avoid” while the FASB definition does not have a similar concept
- The FASB definition makes clear that some share settlements meet the definition of a liability

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Asset Definition Application Issues

- Application to internally developed intangible assets:
 - ✓ At what point in the development process is a right created?
 - ✓ What evidence must be present to conclude that the right is to an economic benefit?
 - ✓ Is some threshold of development necessary and is that a matter of definition or specific recognition criteria?
 - ✓ Assume cost \neq asset

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Liability Definition Application Issues

- Liabilities are present obligations; when is an entity presently obligated?
 - ✓ Distinguishing liabilities from business risks
 - ✓ What is meant by a *stand ready* obligation?
 - ✓ What is meant by a *constructive* obligation?
 - ✓ What is the purpose of the phrase “little or no discretion to avoid the future sacrifice”? (SFAC 6, para. 36)

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Distinguishing Liabilities from Equity

Fundamental: Is an obligation a liability of an entity if the obligation will (or can be) settled by delivery of an equity instrument of the entity rather than an asset?

- How can we know if a transaction is an “investment by” or “distribution to” an owner without an operational distinction between liabilities and equity?
- Is there a basis for concluding gains and losses on transactions in an entity’s own shares not be included in comprehensive income?

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Distinguishing Liabilities from Equity *(continued)*

- Assume an entity has the following present obligations:
 - ✓ To issue 100 shares at a fixed price
 - ✓ To issue sufficient shares to transfer fair value of \$1,000
 - ✓ To pay, in cash, the fair value of 100 shares
 - ✓ To pay \$1,000 in cash
- Alternatives range from:
 1. All present obligations are liabilities and the form of settlement does not matter
 2. Only present obligations to transfer assets of the entity are liabilities
- Conclusion is that all circumstances except the first create a liability

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Elements in the Statement of Comprehensive Income⁽¹⁾

Revenues

78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's *ongoing major or central operations*.

Gains

82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

⁽¹⁾SFAC 6

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Elements in the Statement of Comprehensive Income⁽¹⁾ *(continued)*

Expenses

80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's *ongoing major or central operations*. [footnote reference omitted]

Losses

83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

⁽¹⁾SFAC 6

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Clarifications needed for revenue and expenses, gains and losses

- Revenues and expenses should include transactions that are not from *major or central* operations
- Gains and losses may not be peripheral or incidental transactions to many entities
- Application of the present definitions of revenues and expenses seem, to some, more consistent with a notion of operating income

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Revenue, Expenses, Gains and Losses—Definitions

- Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or *carrying out other activities*
- Expenses are outflows or other using up of assets of an entity or incurrences of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or *carrying out other activities*
- Gains are increases in equity (net assets) from transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners
- Losses are decreases in equity (net assets) from transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners

IFRS Framework – Income, Expenses

- The IFRS Framework only defines *income* and *expenses*, but not *gains* or *losses*
- IASB Definition of Income:
 - Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims
- IASB Definition of Expenses:
 - Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims