Teaching Accounting’s Conceptual Framework

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Abstract

The ongoing project of the FASB and IASB to update accounting’s conceptual framework has drawn renewed attention to the need for accounting students to comprehend accounting theory. Whether broadly reviewed in an introductory accounting course or thoroughly developed in intermediate accounting, theory is an important component of the accounting discipline. Accounting theory is usually taught in a dull fashion that turns students away from the discipline. My paper demonstrates an approach that draws on what students already know, albeit in a non-accounting context, and adapts it to the conceptual framework in an interesting and informative way.
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INTRODUCTION

The preliminary view (PV) of the Financial Accounting Standards Board’s (FASB) and the International Accounting Standards Board’s (IASB) ongoing project to update accounting’s conceptual framework has drawn renewed attention to the need for accounting students to comprehend accounting theory. This project has the potential to significantly alter the way accounting standards are established and applied (Gore and Zimmerman, 2007). The conceptual framework, whether broadly reviewed in an introductory accounting course or thoroughly developed in intermediate accounting, is an important component of the accounting discipline. This topic is usually taught in a fashion that turns students away from accounting when it should be doing exactly the opposite. This paper demonstrates an approach that takes what students already know and adapts it to the conceptual framework in an interesting and informative way. The balance of this paper describes this approach.

Understandability

The first topic typically encountered in the conceptual framework is the user-specific quality of understandability. No matter how relevant and reliable the financial statements are if the user cannot interpret them the information is of little value. This point can be reinforced by noting that if the class was taught in a foreign language the information might be accurate but nonetheless be of little value because of the lack of understanding on the part of the student. The same is true if the user cannot interpret accounting information. The Sarbanes-Oxley Act has elevated the importance of understandability as the CEO and CFO have to sign off on the financial statements even if they are not accounting experts. Clearly some understanding of accounting is now a prerequisite for these positions.

Decision Usefulness

Decision usefulness, an overriding objective, is normally the next qualitative characteristic reviewed. Relevance and reliability determine usefulness and each is further broken into its three respective components.

The three components of relevance are predictive value, feedback value and timeliness (Spiceland et al, 2007). In an educational context, students have expectations on how well they will do on an exam (predictive value), have the exam graded (feedback value) and want it returned promptly (timeliness). This is precisely what users expect from accounting information.

Reliability consists of verifiability, representational faithfulness and neutrality (Spiceland). Verifiability simply means provable. Students cannot merely claim they
deserve a higher grade they must document it through evidence much like an auditor would. Students sometimes criticize an exam as unfair because it did not emphasize what was covered in class. They are attacking its representational faithfulness. Neutrality means that accounting should not favor one party over another. Similarly, an instructor should be neutral in evaluating students. Is it okay, for an instructor, to be seen in a social setting with a student? How might this harm the perception of neutrality?

Accounting regulators must sometimes decide on whether reliability or relevance should be prioritized in setting an accounting standard. This notion can be introduced in a non-accounting context by referring to the use of instant replay in an athletic context. Is it best to stop the flow of the game (timeliness) to make a correct call (reliability)? Another, more compelling application of relevance v. reliability, can be seen in the controversy over the 2000 presidential election with relevance (timeliness) ultimately winning out over reliability (recount). Interestingly, in its update of the conceptual framework, FASB/IASB proposes to narrow the definition of reliability to entail only representational faithfulness. (Gore, 2007). Does this perhaps suggest a bias toward fair value accounting over the traditional historical cost?

**Accounting Constraints**

Accounting constraints to achieving desired qualitative characteristics include cost effectiveness, materiality and conservatism. (Spiceland, 2007) Cost effectiveness of information can be explained by the necessity to buy the text. Buying the text is relatively cheap compared to paying for the course again. Materiality can be discussed in conjunction with the grading of an exam. A few points disputed on an exam compared to the total in the course are typically not material to the determination of a course grade. Obviously the threshold for determining this, much like the accounting threshold, is subject to judgment. Students undoubtedly feel that any points to be gained in a grade dispute would be material. Finally, a mid-term grading policy that does not provide for any curve or other grade accommodation can convey conservatism. Hopefully this conservative policy will serve to make the student work harder to get the higher final grade.

In its PV, FASB/IASB propose to eliminate conservatism and replace it with neutrality which, as mentioned above, it proposes to delete as a component of relevance (Gore). Clearly neutrality would be elevated in importance and the traditional approach to booking losses and asset write-downs would play a more subordinate role in establishing GAAP. Again this may suggest a preference for fair value accounting, which has taken on even greater importance in light of the recent financial industry meltdown.

**SUMMARY AND CONCLUSION**

The above discussion is not meant to be a complete review of all aspects of the conceptual framework. The concepts described above are primarily abstract in nature and lend themselves to a non-accounting discussion. These non-accounting applications are merely an introduction as to how an instructor can relate the students’ own experiences to some of the intricacies of the conceptual framework. Other concepts such as monetary
unit (grade inflation), full-disclosure (grading policy) and periodicity (one semester) can be demonstrated in a similar fashion. I believe that the conceptual framework is an important topic in accounting and it is not necessary to discuss it in a dreary way that likely turns students off. If an instructor takes what students already know and then adds an accounting flavor to it, students can digest accounting theory in a much more palatable way. I believe this is an approach worth considering when discussing the conceptual framework.
REFERENCES
