

## Introduction to Conceptual Framework

• It is not a Standard & does not override any Standard.

• It provides assistance to

Standard Setter [ICAI]

Preparer of financial statements

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in formulation of New Ind AS

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To develop accounting policy when No Ind AS is available for a particular transaction

## Objective of General Purpose financial Reporting

- Objective of General Purpose financial Reports is to provide financial information about the entity for assisting users in decision making
- Financial Statements are not intended to reflect the value of an entity.
- Hence, it does not mean that Ind AS are not reflecting usefulness of financial Statements as they do not reflect the financial value of the entity.

## Qualitative Characteristics of Useful Financial Information

• If financial Information is to be useful, it must have

Fundamental Qualitative Characteristics

Enhancing Qualitative Characteristics

Relevant Information

Faithful Representation

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It must be

→ Complete

→ Neutral

→ Free from Error

Comparability Verifiability Timeliness Understandability

• Cost Constraint on Useful Financial Information :-

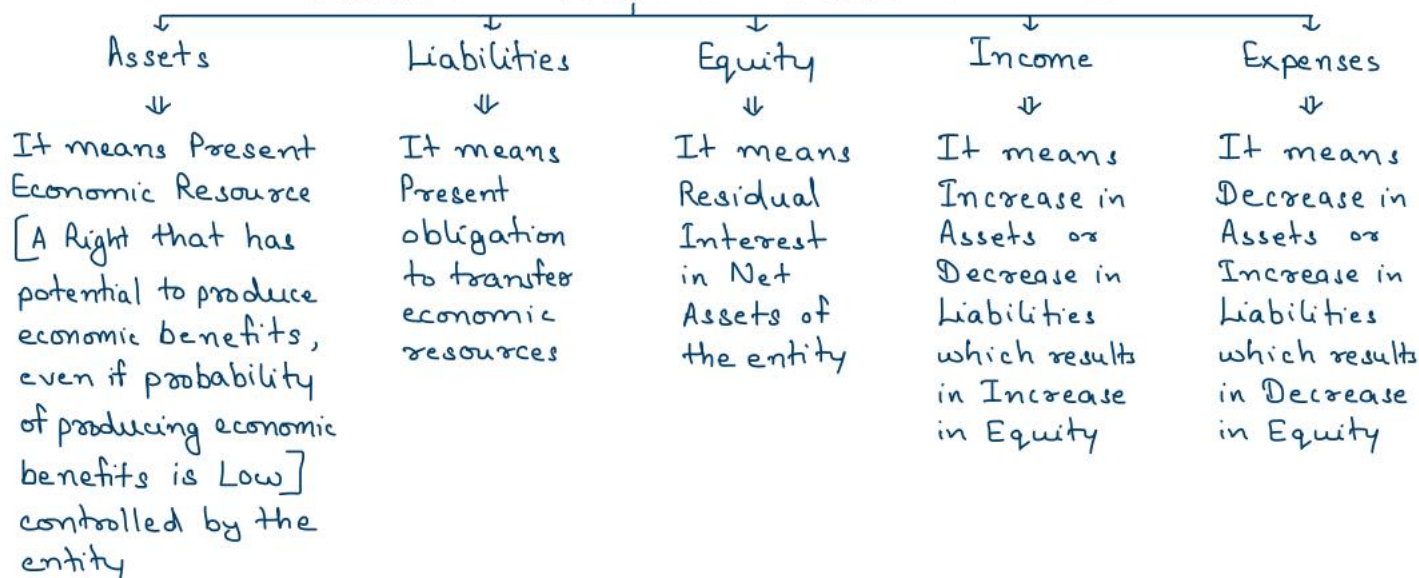
(i) Role of Cost : Reporting of financial Information imposes cost which must be justified by benefits of reporting that information.

(ii) Basis of Assessment of Cost : Assess whether benefits of reporting information can justify the costs incurred on the basis of quantitative & qualitative information.

(iii) Cost Perspective : Costs & Benefits of reporting financial information should be considered in relation to financial reporting generally, not in relation to individual entities.

### Elements of financial Statements

• There are 5 Elements of financial Statements as follows :



• Recognition Criteria :

These Elements are recognised in financial Statements only if

→ meet the above definition , &

→ Recognition provides useful information to users of financial statements [i.e. Relevant Information & Faithful Representation]

• Derecognition of Assets or Liabilities [i.e. Removal from Balance Sheet] :

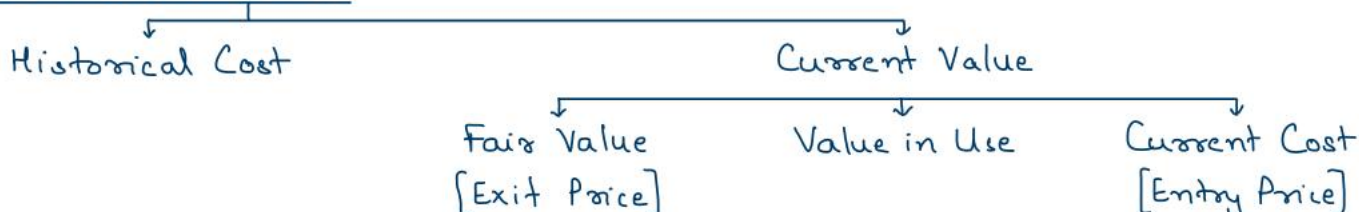
→ Asset should be derecognised when control on that Asset is Lost.

[If entity has transferred an asset but retains exposure to its economic benefits, then it indicates that control on that asset is not lost.]

→ Liability should be derecognised when Present Obligation no longer exists.

### Measurement Basis for Recognising Elements in financial Statements

• Measurement Bases :



- Hence, Ind AS does not implement a Fair Value Model only. It is based on 'Mixed Measurement Approach' because using a common basis for all elements may not provide relevant information to users.

### Other Points

- (1) Conceptual Framework states that users need information which allow them to assess future cash flows of the entity.  
So, According to Conceptual Framework, if entity has made a decision to sell the subsidiary, then it should be classified as Discontinued Operation even if criteria as per Ind AS 105 has not been met.
- (2) In case of differences between Conceptual Framework & Ind AS, Ind AS would prevail.
- (3) Executory Contracts :-
  - A contract which is equally unperformed, i.e.
 

↓	OR	
Neither Party has performed its obligations		Both Parties have partially performed the obligations to equal extent
  - It establishes a Combined Right & Obligation to exchange economic resources.

### Concept of Capital Maintenance

- It is used to calculate whether entity has maintained the Capital in business to repeat the whole process endlessly.
- Approaches to Capital Maintenance :-

(i) Financial Capital Maintenance at Historical Cost :

Closing Capital	$\left[ \begin{array}{l} \text{Opening Capital} \pm \text{Profit / (Loss) during the year} \\ - \text{Capital Withdrawal during the year} \end{array} \right]$	xxx
(-) Capital to be maintained [Same as Opening Capital]		(xxx)
Extra Capital / (Less Capital)		xxx / (xxx)

(ii) Financial Capital Maintenance at Current Purchasing Power :

Closing Capital	$\left[ \begin{array}{l} \text{Opening} \\ \text{Capital} \end{array} \pm \begin{array}{l} \text{Profit / (Loss)} \\ \text{during the year} \end{array} - \begin{array}{l} \text{Capital Withdrawal} \\ \text{during the year} \end{array} \right]$	xxx
(-) Capital to be maintained	$\left[ \begin{array}{l} \text{Opening} \\ \text{Capital} \end{array} \times \frac{\text{Price Index at Year End}}{\text{Price Index at Year Beginning}} \right]$	(xxx)
Extra Capital / (Less Capital)		xxx / (xxx)

(ii) Physical Capital Maintenance :

Closing Capital	$\left[ \begin{array}{l} \text{Opening} \\ \text{Capital} \end{array} \pm \begin{array}{l} \text{Profit / (Loss)} \\ \text{during the year} \end{array} - \begin{array}{l} \text{Capital Withdrawal} \\ \text{during the year} \end{array} \right]$	xxx
(-) Capital to be maintained	$\left[ \begin{array}{l} \text{Opening} \\ \text{Capital} \end{array} \times \frac{\text{Price of Product at Year End}}{\text{Price of Product at Year Beginning}} \right]$	(xxx)
Extra Capital / (Less Capital)		xxx / (xxx)