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RESTRICTIONS IN THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING: A REVIEW OF THE LITERATURE

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ABSTRACT

The purpose of this study is to literature examining the restrictions in the Conceptual Framework for Financial Reporting. The globalisation process has affect to an invitation for the harmonisation of financial reporting standards, and consequently, the US Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have joined forces to create one set of accounting standards. One of the joint projects is a common conceptual framework (henceforth referred to as the CFW). These paper provide a guidance to the conceptual framework a long with international accounting and financial reporting standards. To understand the quality and objective of financial reporting, it is important for CWF to examine the fundamental characteristics of financial accounting information and its restrictions. I imply that most of the existing empirical research is US GAAP-oriented and that IFRS investigate on the restriction in the CFW for financial reporting is limited.

Keywords: Conceptual Framework, Financial Reporting, Restrictions, IASB.

Jel Codes: M41, M49.

FİNANSAL RAPORLAMAYA İLİŞKİN KAVRAMSAL ÇERÇEVEDEKİ SINIRLANDIRMALAR: LİTERATÜRSEL BİR İNCELEME

ÖZET

Bu çalışmanın amacı, Finansal Raporlamaya ilişkin Kavramsal Çerçeve'deki sınırlandırmaları inceleyen literatürün incelenmesidir. Küreselleşme süreci, finansal raporlama standartlarının uyumlaştırılması üzerinde etkili olmuştur ve sonuç olarak, ABD Finansal Muhasebe Standartları Kurulu (FASB) ve Uluslararası Muhasebe Standartları Kurulu (IASB) bir muhasebe standartlarında ortak bir set oluşturmak için araya gelmişlerdir. Bu kurumların ortak projelerden biri ortak bir kavramsal çerçeve oluşturulmasıdır (bundan böyle CFW olarak anılacaktır). Bu çalışmanın amacı, uluslararası muhasebe ve finansal raporlama standartları ile uyumlu bir kavramsal çerçeveye rehberlik etmeyi sağlamasıdır. Finansal raporlamanın kalitesini ve amacını anlamak için CWF'nin finansal muhasebe bilgilerinin temel özelliklerini ve kısıtlamalarını incelemesi önemlidir. Araştırmaya göre, mevcut ampirik araştırmaların çoğunun US GAAP yönelimli olduğunu ve IFRS'in finansal raporlama için ise CFW'deki kısıtlama konusundaki araştırmalarının sınırlı olduğu ifade edilmiştir.

Anahtar Kelimeler: Kavramsal Çerçeve, Finansal Raporlama, Kısıtlamalar, IASB.

Jel Kodları: M41, M49.

1. INTRODUCTION

The conceptual framework (CFW) offerings that the objective of financial reporting is to provide financial information regarding a corporate reporting that is useful to current and potential investors, to lenders, creditors, and to other information users who want to make decisions about providing resources to the entity (IASB, 2010). Certain studies focus on role of a revised CFW for IFRS (Macve, 2014; Gebhardt, Mora, and Wagenhofer, 2014), IASB and FASB face tasks in pursuit of joint CFW (McGregor and Street, 2007), CFWs of accounting from an information perspective (Christensen, 2010), the critical role of the IASB CFW

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(Whittington, 2008), conflicting definitions of relevance in the FASB CFW (Cho, Kim and Lim, 2010), reliability makes accounting relevant: a comment on the IASB CFW project (Bauer, O'Brien and Saeed, 2014), the case for coherence in the CFW and standards (Sutton, Cordery, and Zijl, 2015), the evolution of the CFW for business enterprises (Zeff, 1999), CFWs of accounting (Macve, 2010), and financializing and the CFW (Zhang and Andrew, 2014).

Although there is a developing figure of literature examining whether the CFW provides information useful to economic participants, in contrast to the literature focus, the restrictions in the conceptual framework for financial reporting is very limited. Other argued for special restriction issues, for example, accounting conservatism (García Lara and Mora, 2004; Garcı´a Lara, Garcı´a Osma and Penalva, 2009a), conditional and unconditional conservatism (Basu, 2005; Beaver and Ryan, 2005; Iatridis, 2011), and conditional conservatism (Brown, He and Teitel, 2006; Ryan, 2006; Garc´ıa Lara, Garc´ıa Osma and Penalva 2009; Garcı´a Lara, Garcı´a Osma and Penalva, 2011). The review of the prior literature shows that there are limited evidences that restrictions of CFW for financial reporting. Thus, these literature review study suggests some important aspects to point out.

In the issues of adoption of IFRS, international accounting standards board (IASB) has come to the fore, but it has still encountered differences in national and regional levels. Some of this accounting culture differences occurs from national accounting and financial reporting cultures, which are surrounded in the organizational, institutional, legal origins and management behavior within the business operate. These issues are discussed on the IASB’s of its conceptual framework for financial reporting. In the introduction portion of CFW related to accounting and financial reporting, certain restrictions of financial statements are provided. For example, general purpose financial statements ensure information regarding the financial position of the establishment includes the economic resources of reporting firm and information related to the establishment’s demand right. In addition, financial reports offer accounting information regarding the effects of the changes in economic sources of the reporting firm and of other incidents.

Both information types provide data that may be useful for ensuring decision making sources to businesses. However, general purpose financial statements do not provide all the information required by financial information users. In addition, general purpose financial statements cannot be expected to offer all needed financial information. Therefore, these users must consider the information obtained from other sources related to general economic status, economic expectations, political events, the firm’s industry and the institution. In other words, general purpose financial statements cannot be organized to indicate the value of the financial reporting business. In addition, these reports provide information that will assist in making predictions related to the reporting firm’s value.

This study discusses the link between restrictions in the conceptual framework and financial reporting, by discussing certain key changes in the current CFW project that is being jointly developed by the IASB and FASB. The stated objective of this joint project is to develop an improved CFW for the convergence of IFRS and US Generally Accepted Accounting Practices (GAAP). The two organizations are both extremely dominant, thus, the convergence project has drawn important interest from accounting professions, academics and the other society. This is reflected in the number of responses to Discussion Papers (DPs) and exposure drafts released by the IASB/FASB, and is further supported by the extensive study dedicated to these issue (Zhang and Andrew, 2014; Wagenhofer, 2009; Whittington, 2008). Current study demonstrates that, notwithstanding their general agreement on the decision-usefulness objective of general purpose financial reporting, FASB and the IASB's CFWs are based on two different concepts of financial reporting.

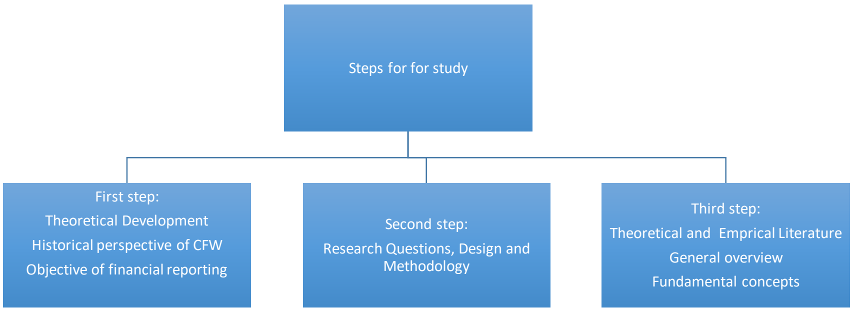
The purpose of the present IASB conceptual framework is to support

- ✓ the Board in developing future accounting and financial reporting standards,
- ✓ the Board in promoting harmonization of regulations and financial reporting standards,
- ✓ national standard-setters, and thus to support information users. Additionally, the FASB states a similar purpose. Thus, these purpose is to help the standard-setter to develop future standards, and is to help those producing and using the financial statements. A framework could be regarded as a constitution defining the general principles for the development of accounting and financial reporting standards in the regulatory area and for the information content of financial statements in the users’ domain. To fulfil this purpose

CFW should be invariant over a long period and formulate the general rules which constitute the fundamental of financial reporting (Christensen, 2010).

Consequently, CFW is so important that it enables accounting and financial reporting standards to be developed in accordance with generally agreed principles. The CFW will offer a set of consistent principles to guide the regulation and financial reporting information. The CFW build on current IASB and FASB frameworks. Although CFW will guide the International Financial Reporting Standard (IFRS) setting process, it is not an IFRS. The study adds to the existing debate on these topic, which shed light on financial and accounting reporting standards. CFW sets out the underlying concepts for the preparation and presentation of company financial statements and forms the basis for specific recognition and measurement requirements in financial reporting. Therefore, I advised that CFW will lead to consistent accounting and financial reporting standards as long as eliminating restrictions for its.

In this study, I examine three steps of restrictions of CFW for financial reporting issue. I discuss this steps as follows:



In the first step examines theoretical development such as historical perspective of conceptual framework and objectives of financial reporting. Step 2 explores research questions, design and methodology. Finally, step 3 examines theoretical and empirical literature on restrictions for financial reporting.

2. THEORETICAL DEVELOPMENT

2.1. Historical Perspective of Conceptual Framework

I noted that the historical perspective of CFW for financial reporting were develop first in USA. The first official attempt to lay the foundations of a CFW was *"the Tentative Statement of Accounting Principles Affecting Corporate Reports"*, released in 1936 by the executive committee of *"the American Accounting Association (AAA)"*. The main motivation for preparing the Tentative Statement was to offer authoritative guidance to the recently established Securities and Exchange Commission (SEC) for historical cost accounting, as well as the revisions issued between 1941 and 1954. The final revision of its, issued in 1957, attested to venture far beyond established practices, negating easy approval by the SEC. In addition, AAA issued an influential report in which it advocated a decision usefulness approach in 1966, this was carried forward in 1973 by the report of *"the American Institute of CPAs' Trueblood Committee"*. All this laid the foundation for the FASB CFW project, which published six concepts reports between 1978 and 1985. In June 1974, the board issued its first discussion memorandum in *"the Conceptual Framework for Accounting and Reporting"* project, addressing the objectives and qualitative characteristics (Zeff, 1999).

When both FASB and the IASB addressed issuing standards on certain accounting challenges, they certainly identified the need to develop a collective CFW of objectives, principles and definitions as a guideline for the future development of a consistent set of financial reporting standards. FASB issued a series of 7 Concepts Statements from 1978 to 2000 whereas the IASC, utilizing FASB work, issued its much shorter Framework document published in 1989 (Gebhardt and Dean, 2008). In 2004, IASB and FASB launched, as part of their convergence project, deliberations to revise their CFWs and received external encouragement to move toward principles-based accounting standards instead of detailed rules (Miller and Bahnson, 2007). That project's scope was restricted because, from the boards' perspectives, few changes, including language refining, gap filling, and updating, were required (Gebhardt, Mora and Wagenhofer, 2014). In 2006, FASB published a Preliminary Views document with the ponderous title, Conceptual Framework for Financial Reporting: Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information.

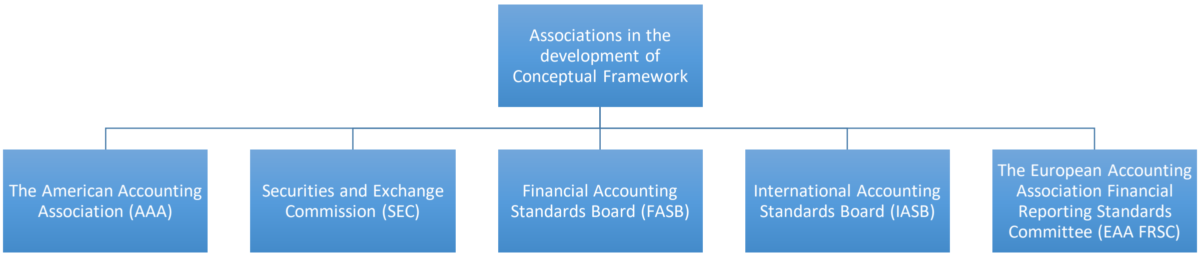
More changes in language occurred than shift in substance when the board issued, as a first phase outcome, a discussion paper in the July 2006 FASB/IASB and an exposure draft IASB-2008 on the chapters regarding objectives and qualitative characteristics. For example, the 2006 DP indicated that the objective of financial reporting is to offer financial information using for resource allocation decisions without explicit reference to stewardship. These proposed shifts appear to have been influenced by socioeconomic environments with a strong emphasis on the uses of financing information by capital market participants, such as the U.S. and UK. Because IFRS are applied in many countries with different accounting information uses, the proposals were argued. This argue was also stressed in an Abacus Open Forum, which was held as an initiative of *"the European Accounting Association's Financial Reporting Standards Committee (EAA FRSC)"*. Gebhardt and Dean (2008) led an *"Open Forum discussion regarding general CFW matters as part of the Siena EIASM Fourth Workshop on Accounting Regulation"*. These important forum sessions expanded discussions related to the Fair Value Measurement papers presented at the Siena Workshop.

In 2008, a new project was jointly conducted by the IASB and FASB, this project intended to lead to a new CFW that unites the two institutions' separate frameworks. This project is in progress, and many preliminary working papers released for reference. In the exposure draft of the joint CFW, the purpose is reformulated as establishing concepts under accounting standards (FASB/IASB, 2008). Because FASB's preliminary CFW is very extremely abstract, it may not useful in establishing financial reporting standards, which is the current CFW project that is being jointly developed by the IASB and the US FASB. The stated aim of this joint project will develop an improved CFW for the convergence of IFRS and local GAAP in the USA.

The two body are both extremely influential, and thus the new convergence project has drawn significant interest from accounting professions, academics and the other society. These is revealed in the number of responses to DPs and exposure drafts released by the IASB/ FASB (Zhang and Andrew, 2014). In September 2010, the IASB and FASB issued a revision of two sections of the CFW on the objectives of general purpose financial reports and the qualitative characteristics of useful accounting information for users. In 2012, for CFW, the IASB revived its discussions solely as an IASB project. Thus, IASB abandoned the former phased method and to develop the CFW in a single project and within an unusually challenging time frame (Gebhardt, Mora and Wagenhofer, 2014).

Although the IASB and FASB previously commenced a CFW in 2004, the Board effectively deferred further work on the joint project until after other more urgent convergence projects were finalized during the 2010. Because of the IASB's Agenda joint project, the IASB decided in September 2012 to revive the CFW project as an IASB. The IASB enhanced these project to its agenda at its September 2012 meeting. Discussion Paper DP/2013/1 *"A Review of the Conceptual Framework for Financial Reporting"* was published in July 2013, with a comment deadline of 14 January 2014. The IASB conducted to issue an Exposure Draft in the first quarter of 2015 (www.iasplus.com/en/projects/major/cf-iasb).

In sum, five associations are active role in the development of Conceptual Framework in the world. In this context, associations are shown in these figures:



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2.2. Objective of Financial Reporting

The objective of financial reporting is to provide accounting information regarding the business financial reporting that is useful to present and potential equity investors, lenders, and other financial information users (Kieso, Weygandt and Warfield, 2013). The purpose of financial reporting is the dissemination of financial reports and statements that accurately measure the profitability and financial position of an entity (Fridson and Alvarez, 2002).

A primary topic focused on the framework regards the objectives and uses of financial reporting. The CFW also covers no discussion of potential conflicts between decision usefulness and stewardship, proposing that there are no disagreements between implied those objectives. The discussion paper suggest that the IASB does not want to resume these topics again after the 2010 amendment. Nevertheless, the 2010 CFW was a joint project of the IASB and FASB, whereas the discussion paper is a document developed by the IASB alone. Thus, there appears to be more room for further discussion (Gebhardt et al., 2014). Consequently, CFW provides a foundation for developing a consistent approach to resolving financial reporting issues.

For FASB, its CFW is merely an instrument used to inform the process by which this accounting and financial reporting standards are created and old ones revised. But, the IASB's CFW is expected to play a gap filling role when accounting professions face reporting policy choices not covered by an accounting standard (Peasnell, Dean and Gebhardt, 2009). One important argument that managers know that they should announcement the audited financial statements for shareholders and other information users. Hence, accounting information crucial a role in controlling agency costs (Macve LSE, 2010).

The accounting regulatory agencies continue to produce financial reporting standards, whereas their CFW schemes remain indecisive and unfinished. Therefore, important mission is to reflect the organized and professional role of the CFW programmed. Likewise, the financial reporting standards that regulators generate have ambiguous relations to apparent under the accounting principles. Furthermore, it will determine the institutional processes that shape accounting standards (Robson, 1999). However, in developing its CFW, FASB opposed supporters of traditional accounting to provide objective and operational definitions of the financial statements elements that do not depend on definitions of assets, liabilities and shareholders' equity as future cash flows (Bryer, 1999). Therefore, FASB's framework is based on the marginal idea of economic value.

The CFWs establish the principles guiding financial reporting standards. The CFWs recognize the financial information users and obviously define the purpose of financial reporting and concept. Thus, CFWs show a crucial role in determining the nature and evolution of the rules for these purpose (Sutton et al., 2015). Hence, the CFW provides financial information that is useful to information users. Useful information is defined as the information that helps individual investors and creditors assess the amounts, timing, and uncertainty of future cash flows. Thus, useful information is restricted to that which relates to assessments of future cash flows. Therefore, any event that is not perceived to have such impacts need not be viewed as that which financial accounting should offer information on (Young, 1996).

Consequently, CFW will offer a set of consistent principles to guide regulation and accounting information. Financial accounting should be viewed as an information system, as acknowledged by both FASB and IASB in their original CFWs (FASB, 1978; IASC, 1989). The company has an information advantage compared to the users of accounting information, and this benefit is used strategically in corporate financial reporting. The CFW of both IASB and FASB identify sets of the qualitative characteristics of accounting information. A set of definitions of the elements of financial statements is part of the CFW. These elements consist the assets, the liabilities, the shareholders' equity, the income, and the expenses. The CFW also offers definitions of recognition rules related to the basic financial statements concepts. Finally, the general rules of accounting-based measurement are included in the CFW. Combined, the definition of elements of financial statements is supposed to govern the inclusion and exclusion of accounting information. Furthermore, the CFW should increase information users' understanding of and confidence in accounting applications. In sum, the CFW provide enhance comparability among business' financial statements analysis and financial reporting.

A CFW should be observed as a constitution defining the general principles for the development of financial reporting standards in the regulatory domain and for the information content of financial reports in the information users' domain. Therefore, a CFW should be invariant over a long period and formulate the general rules that constitute the core of accounting applications. Hence, a CFW should reflect the institutional environment business operate in. For example, listed firms are subject to extensive information asymmetry requirements in most financial markets (Christensen, 2010). These issue is very important because the CFW is the basis for IFRS that are also used by listed and unlisted firms in many countries.

Gerber et al. (2014) recommendations are offered for inclusion into an approach reporting the development of the CFW:

- ✓ The role of the CFW in the financial reporting standards should be clarified.
- ✓ The CFW should possibly prescribe all definitions and principles that guide IFRS and interpretations.
- ✓ The CFW should provide a complete representation of all the principles that would regulate the specific domain it represents.
- ✓ All financial reporting standards and interpretations should preferably observe to the CFW definitions.

3. RESEARCH QUESTIONS, DESIGN and METHODOLOGY

The CFW reflects financial statement elements such as assets, liabilities, income, and expense, item by item. The purpose of focusing on financial statement elements item by item is to provide investors with comparable financial information regarding the company's assets and claims against those assets. Profit or loss is the change in the assets and claims that do not arise from other assets, liabilities, or transactions with equity holders in their capacity as shareholder's equity. The assumption underlying this focus is that comparability results from representing financial statement elements in the same way, for example by recognizing the same set of assets and liabilities and measuring them in the same way (Barth, 2013).

CFW is a coherent system of interrelated objectives and fundamental principles of financial reporting, which is the process of preparation of financial statements is based in order to provide users with information useful for their decision making. In this context, CFW is defined the nature, function and limits of financial accounting and financial reporting.

Although many financial reporting standard setters have historically functioned without having a conceptual framework in place, the conceptual framework have developed accounting and financial reporting. The lack of a settled conceptual framework also increases the possibility that standards are inconsistent with each other and that there is no overall objective for the preparation and presentation of financial statements. Therefore, the CFW contributes financial information users in interpreting information contained within financial statements including consolidated financial statements as it provides an understanding of the principles on which they are prepared. In this context, many analysts believe that harmonizing these frameworks should be the priority in developing globally accepted financial reporting standards.

The conceptual framework provides a set of consistent principles to guide for IFRS and improve reporting of financial information as part of the decision-making about providing resources to the business. The purpose of these study is to explore main research question:

RQ=what are the role of conceptual frameworks and contribute to the quality of corporate financial reporting?

To explore the above-stated main research questions, these paper begins by re-examining the issues related to the conceptual framework that provide guidance to using information users such as analyst and practitioner.

The purpose of literature review is to provide collective insights through theoretical synthesis into subjects. Therefore, in accounting research, the literature review process is a key tool, used to manage the diversity of knowledge for a specific academic analysis. Consequently, the purpose of conducting a literature review is to enable the researcher by mapping and assessing the existing intellectual area, and to identify a research question to develop the existing body of knowledge as well as provide guidance for further research (Tranfield et al. 2003). By using a systematic and structured method to identify and map the empirical literature review, this systematic literature review provides to a comprehensive understanding of our knowledge in the academic research arena. It provides insights into the current state-of-the-art and, provides some guidance for further empirical and analysis research (Heinicke, 2018).

The used research methodology mainly trusts on literature review particularities. The purpose of this study in the area of literature review is to summarize and discuss the main results achieved in prior literature. These paper explore literature review methodology to assess what has been published within accounting research literature on restriction of conceptual framework for financial reporting. Making such an analysis that focuses on the research literature, I do specifically purpose to discover new points of view on conceptual framework, and also I try to suggest groundwork and a theoretical framework to ease the conceptualization and the determinant of the role of financial reporting. In this paper, I examine the restrictions in the conceptual framework for financial reporting such as historical cost, accounting politics, accounting estimates, accounting error and frauds and conservatism.

4. THEORETICAL AND EMPIRICAL LITERATURE

From the examined sources, this study ends up with some papers that directly deal with the role of CFW for financial reporting both with a literature and an empirical analysis. The theme is very well open to both methodological approaches, as the purpose of financial reporting provides sufficient data for empirical researches, and all conceptual issues relating to CFW are appreciated in the literature analysis. Both approaches are of a great value and give us important insights into the restriction of conceptual framework on the financial reporting. From the literature analysis, it first appears that general overview. Additionally, I focus on both with a literature and some empirical analysis restrictions for financial reporting on the CFW.

4.1. General Overview

According to FASB (2010), the CFW is defined as a rational system of interconnected objectives and fundamentals that is expected to lead to consistent accounting standards and that advocates the nature, function, and restrictions of financial reporting.

Accounting and financial reporting standard-setting should be more than a conceptual exercise; it should also consider the motivations of both producers and information users. Otherwise, the actual implementation of financial reporting standards will be quite different from what the regulators expected to occur. Nonetheless, the regulators will be locked into a cycle of revision and disappointment with the actual implementation of financial reporting standards (American Accounting Association's Financial Accounting Standards Committee; Benston et al., 2007).

According to the IASB, CFW chapter 1 of the exposure draft of an improved CFW for financial reporting the objective of financial statements shall solely be to offer information regarding financial position of the business (IASB, 2008, OB6). In addition, general purpose financial statements offer information regarding the financial position of a business reporting. Financial statements also provide information regarding the effects of events and other transactions that alteration a reporting business' economic resources and claims (FASB, 2010, OB12). This restriction is documented by the CFW in OB20: financial statements are not prepared to show the business value. Estimating of the business value would need considering financial information in addition to that provided in financial statements, for example, general economic conditions and the industry in which the business operates (Benston et al., 2007).

IFRS are not targeted at providing information for parties to the business' contracts, which can demand from the business the financial information they need to making-decisions. For example, many business debt contracts specify additional financial statements that the entity should offer to the debt holders. Thus, we would not to say that debt contracting parties, including present debt holders, do not find financial statements to be useful. But, the DP of the first two chapters of the joint IASB/FASB reviewed CFW settles that the financial information needs of those parties are not the primary concern of financial reporting, as proposed by the CFW (Barth, 2008).

The joint IASB/FASB (2008) exposure draft defines faithful representation as a fundamental qualitative characteristic of accounting information. Furthermore, faithful representation includes conservative, which would introduce bias into the accounting information. Remarkably, financial reporting systems have always been conservative (Wagenhofer, 2009). Prudence or conservatism is not a qualitative characteristic of financial reporting information. Adequately, the CFW states that financial information should be unbiased (Barth, 2008).

Nevertheless, these bias is outcome of the application of IFRS that have not yet been updated to be link with the CFW, and application of other concepts in the CFW.

Financial statements components are indicated at historical cost value. Current assets and non-current assets and all liabilities, for example, are typically originally measured at the historical value established by an exchange, which is their cost. However, a certain type of re-measurement is pervasive. The sole amounts in financial reports have currently been always historical costs are those for cash and land in the transaction currency (Barth, 2008). Thus, the measurement debate in accounting as historical cost versus fair value misinforms and obscures the issues.

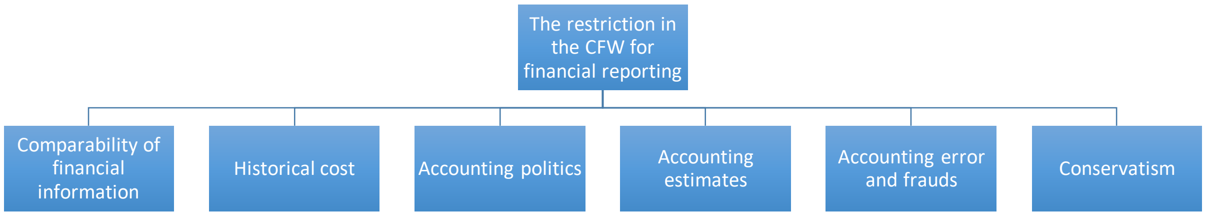
According to the IASB (2008), CFW does not provide any verge that should be met for the cash inflow of economic benefits to be regarded as likely. Thus, it is not surprising that the IASB has set different probability requirements for different financial accounting topics, for the recognition of revenue from the sale of services and construction contracts. Furthermore, the draft CFW also implies that financial information regarding a business performance is also essential (OB18-OB22). Yet, because business performance term is defined in terms of changes in the company financial position, it appears as though the original representation of a corporate financial performance shall no longer be a distinct objective of IFRS financial statements (Wüstemann and Wüsteman, 2010).

Financial statement users have financial information needs and requests that are most likely different and do not overlap with Financial Reporting Standards development; the objective is to require the information quality that meets the needs of most original users. However, focusing on common information requirements in financial reports does not impede inclusion of supplemental information that is useful for a group of original reporting firm users. The reporting firm's management needs financial information related to the institution. However, because management can obtain the required information from the internal sources, management is not obliged to remain limited to the information submitted in the financial reports.

Then preparation purpose of the financial statements will ensure information regarding changes in the firm's financial position, performance and health to be used by various users while making-decisions. Financial reports organized for this purpose meet the common needs of great majority of the users. Financial reports, at the same time, indicate the results of the sources and uses of the activities provided under the managerial responsibility of administers. Users acting on behalf of firm owners who wants to revise the sufficiency and management accounts can make more rational decisions utilizing these evaluations. These evaluations may include, for example, the decisions related to continuing investments in the firms, selling the investments, or reappoint or to changing the management.

To analyze financial statements correctly, the beneficiaries of the financial statements should have basic information regarding the concepts and rules for the preparation. It is impossible to define financial statements' restrictions without having such information.

The increase in the number of international business and the developments experienced in capital markets make the elimination of accounting and reporting differences among the countries compulsory. Because of the accounting standards used, financial statements that are numerical identities of the business may be completely changed. Except for the financial reporting standards used, in the arrangements of the financial reports, there are various restrictions that result from the basic structure of the accounting. These restrictions affect the analysis and interpretation to be made. Therefore, when analyzing and the interpreting financial statements in which the obtained information is reported, these restrictions must certainly be evaluated. As I stated earlier, the restriction in the CFW for financial reporting is consist of comparability of financial information, historical cost, accounting politics, accounting estimates, accounting error and frauds and conservatism. In this context, restrictions of CFW for financial reporting are shown in these figures:



4.2. Comparability for Financial Information

The CFW describes that comparability is the qualitative characteristic of financial reporting information. The CFW goes on to describe that comparability makes financial reporting information useful because the information can be compared to similar information regarding other companies. Therefore, comparability of financial statements across companies is important to enabling information user such as investors, lenders and other creditors to make decision-making (Barth, 2013).

The principal point of a CFW should be the comparative advantage of financial reporting. Financial reporting is an information source which is always produced late in a decision-making process. It is a main characteristic of financial reporting information is that information are based upon the financial relationship of the firm with outside parties and recognize the role of other, subject to auditing, financial information sources, and are hard to manipulate. Thus, it is an important role for the CFW to provide the accounting information system in maintaining the comparative advantage (Christensen, 2010).

Additionally, CFW identifies comparability as a qualities characteristic of useful financial reporting information. However, there are three major conceptual issues inherent limitations in the CFW. First, despite what the IASB (2013a) DP appears to claim at 1.35(b) and (c), solely under ideal conditions could amounts reported for net assets and net income through the double-entry bookkeeping system signify the economic scales that information users such as investors are interested in comparing when assessing alternative investment opportunities. Second, in fact, the financial reports do not include all economic assets and liabilities, instead, these statements include solely those that the financial reporting standards' rules recognise. Third, these are measured on a variety of bases (Macve, 2014). Barth (2013) and Zeff (2007) focus on how the second and third troubles currently limitation the comparability that can be achieved within the financial reports.

Comparability is a very difficult concept to understand within a country and worldwide. A common argument that there has been sudden, very great increase in global comparability in relation to what previously existed, specifically, every country using its own local accounting standards, which differed considerably from country to country. However, I want to caution that future progress in enhancing comparability can be difficult to achieve across international borders (Zeff, 2007).

The CFW specifies comparability as one of the qualitative characteristics of accounting information. The objective financial reporting will offer users such as investors, lenders and other creditors with accounting information that helps them in making their capital allocation decisions. The CFW classifies the qualitative characteristics of relevance and faithful representation as fundamental characteristics of usefulness, and lists comparability, verifiability, timeliness, and understandability as enhancing qualitative characteristics (IASB, 2010). Comparability in accounting information systems is key to promoting efficient allocation of capital. Some may claim that comparability is best achieved by reporting both amounts, for example, if each entity measures the investment at cost and discloses the fair value. However, the CFW clearly states that disclosure is not a substitute for recognition, and the limited literature that exists on recognition versus disclosure tends to support that view (Barth, 2013).

The IASB has accomplished great success in extending the adoption of IFRS, but it has also encountered disagreement at national and local levels. Some of this disagreement rises from differences in domestic accounting cultures. These subjects are particularly apparent in the debate on the IASB's revision of its CFW, which states its own vision of an international financial reporting (Whittington, 2008).

The CFW describes relevance and representational faithfulness as two fundamental characteristics of useful financial information. Nevertheless, relevance and representational faithfulness are not solely properties of financial information because, without first selecting an economic phenomenon, these cannot be defined. Thus, relevance and representational faithfulness are properties of accounting information only for a selected economic phenomenon (Cho, Kim and Lim, 2010).

The CFW is not only very important because of its use by regulators, but also because of its use by consultants (McGregor and Street, 2007). One argued that the set of qualitative characteristics typically contained in CFWs does not adequately aggregate the information demands of accounting information users. For example, CFW covers no guidelines for the trade-off between relevance and reliability. Furthermore, neutrality may not be part of an optimal regulation (Christensen, 2010). Some study implies that there are differences in how capital market participants view recognized information versus disclosed information (Gordon et al., 2015).

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The CFW accepts that financial reports should carry all relevant information and thus it disregards the existence of other information sources. These argument does not allow for a specialisation of the different types of information sources. The financial reporting system composed in one manner may be a better supplement to existing information sources than another accounting system that should stand on its own (Christensen, 2010).

Reporting on performance is one of the main objectives of financial reports. But, the theoretical foundations of performance reporting in the current CFW are limited. There is a primary focus on the balance sheet, and business performance reporting is treated as a derived; the recognition of income and expenses is not separately assessed, but is dependent on the recognition of assets and liabilities (Brouwer, Faramarzi and Hoogendoorn, 2014). Hence, the CFW does not explicitly discuss moral hazard. The background of external financial reporting has recognized moral hazard by using notions such as conservative and reliability (Bauer, O'Brien and Saeed, 2014).

Consequently, CFW implies that comparability is the high qualitative features of financial reporting information. As an example to show this situation, consider the two different firm’s reported assets information as follows:

Table 1. Two Different Firm’s Reported Assets Information

	Whiteday Ltd.	**Quick Ltd.**
Current Assets		
Cash	50.000	50.000
Inventory	100.000	100.000
Total Current Assets	**150.000**	**150.000**
Non-Current Assets		
Property, plant, and equipment	150.000	150.000
Goodwill	5.000	5.000
Total Non-Current Assets	**155.000**	**155.000**
Total Assets	**305.000**	**305.000**

According to Table 1, although the reported all assets of these two firms are similar economic value, the CFW has no comparability for financial reporting. There are many reasons for this issue. Firstly, for example, Whiteday Ltd. can depreciate its property, plant and equipment on a declining-balance basis; whereas Quick Ltd. can choose straight-line depreciation. Secondly, comparability of assets is impacted by inventory accounting methods used. For example, Whiteday Ltd. can use FIFO method, whereas Quick Ltd. can choses average inventory method. Finally, Whiteday Ltd. in good faith may estimate the useful life of an asset to be 15 years, while Quick Ltd. uses a 10-year estimate for the reported of asset.

4.3. Historical Cost

Some advocates argue that historical cost is more reliable than fair value, because it is based on use records of amounts paid to purchase an asset rather than on fair value. However, proponents of fair value argue that fair value is more relevant than historical cost. The fair value and historical cost debate is, in some ways, captured in those two words: reliable versus relevant. In addition, some suggest that historical cost is more conservative than fair value, which allows the values of assets to be written up as well as written down (Henry and Holzmann, 2011). For example, historical cost accounting for investments in marketable securities illustrates a required loose accounting standard. To explain, under historical costing, real economic gains from investment activities do not appear in the financial reports when they occur (Zeff and Dharan, 1991).

Empirical and analytical research shows that financial reporting should have the objective of providing all relevant information to financial markets. Therefore, if both historical cost information and fair values are relevant, both should be reported. As with most financial accounting study, it is important to distinguish

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conceptual issues from those associated with measurement. However, the historical cost term is unfortunately judgmental (Penman, 2007).

Although the purpose of financial reporting is stated purely in terms of decision-usefulness, the case for including information on past transactions and events in financial reporting can be made. However, the historical cost information importance is manifest if stewardship is explicitly included in the financial reporting purposes. Financial reports are set from a stewardship perspective may sound formal, legalistic and of limited real usefulness. Conversely, there is more to the stewardship dimension (Lennard, 2007). Information users such as investors and creditors usually find information regarding a business past financial performance helpful in predicting the corporate future returns on its assets. Nonetheless, the historical cost information importance is manifest if stewardship is explicitly included in the purpose of financial reporting (Lennard, 2007).

According to the General Communiqué on Accounting System Application in Turkey, accounting should be based on the obtaining costs from the recognition of the assets and services obtained from the business excluding other items whose cash ratio, debts and costs are impossible or not suitable for determination. Therefore, according to the evaluation cost value basis, it is impossible to be included the increase in the asset's value after the acquisition date in the cost value. Thus, the assets evaluated on the basis of cost value are located in the financial statements using their historical costs.

Traditionally, assets in accounting are evaluated using the cost value. However, this assessment model is based on the assumption that there is no inflation in the economy. Other assessment methods foresee that, when certain price fluctuations occur, an assessment problem will be encountered (Diewert, 2005). Historical cost includes the amount owed and the financial expression of the sacrifices made. The assets are measured with the amount of cash and cash equivalents or the market values of the corresponding assets. Then, historical cost generally represents the fair value. The amount obtained in compensation for the loan or in the loans resulting from the normal activities of the business, for example, indicate the amount of cash or cash equivalents, as with corporate taxes.

During the evaluation process, general historical cost management is used for the measurement of the financial assets such as stock, field, building, machinery and non-financial assets that are not reflected in the value of cash. The measurement based on historical cost contributes to more reliable information measurement; however, particularly in times of inflation, this may cause financial statements to provide hope in the inflation periods. Thus, using historical costs as a criterion in the evaluation of assets and liabilities from the first record to the subsequent balance sheet periods causes the financial information on the financial statements to be insufficient for users. Correctly subjecting the amounts in the financial statements to inflation partly eliminates the weakness of the historical cost basis.

According to Table 1, reported assets of this firms can reflect historical cost or fair value. As a result, the information provided in the balance sheet is not reporting a more relevant fair value. Historical costs, however, will only equal fair value at the time of the actual transaction; thereafter, the two will almost always differ. Thus, we can say that reported assets in this example are not observable for the economics value.

4.4. Accounting Politics

Accounting policies is defined the process which transactions and other events are showed in financial reports. Accounting concepts such as going concern and accruals are considered fundamental or basis; those and other notions and desirable qualities and their application are considered in the CFW (Tiffin, 2005).

The CFW is a critical step towards true harmonization. Additionally, the CFW has more traditional framework roles to provide consistency across financial reporting standards and provide guidance in circumstances that are not covered by the extant these standards (provided for by IAS8). This leads to the irony that, though the CFW is intended as a means of harmonization, the process of developing the CFW may be a source of disagreement (Whittington, 2008). Thus, I believe that the progress of the IASB's CFW review project.

Preparers of financial information must use judgement in choosing an appropriate accounting treatment where no appropriate international standard currently exists. In these cases, preparers must select an accounting policy offers relevant and reliable financial information with primary consideration provided to international standards addressing similar and related issues (IASB, 2003, paragraph 10).

Accounting policies explain the certain principles, basis, rules and applications used by a business in the preparation and presentation of financial statements. The financial statements include reliable information regarding transitions, incidents and conditions decided by Public Oversight, Accounting and Auditing Standards Authority that are required for convenience for the defined accounting policies. If the financial effects of these policies on financial statements are insignificant, the preparation of the balance sheet, performance or cash flows must be performed for presentation purposes or the financial statements must be corrected for this purpose. For the development of business management accounting policies and the information related to their application;

- ✓ financial statements must conveniently assist their users' economic decision-making requirements,
- ✓ reliable,
- ✓ showing the financial position of the institution activity results and cash flows,
- ✓ reflecting not only the legal structure of the transitions, events and conditions but also the economical source,
- ✓ objective,
- ✓ cautious,
- ✓ be completely equipped with all the information from all important aspects (Turkey Accounting Standard-TAS 8; 10).

It is necessary to estimate during carrying of accounting policies related to the transitions, events or conditions to the financial statements or explanations. The estimations are based on the management's viewpoints and can be developed in the periods following the reporting period. However, although estimations for the past are being developed, the purpose matches that of those in the current period, i.e. the estimations must reflect the transitions, events and conditions of that period. Therefore, the information, transitions or conditions needed in the application of a new accounting policy or in the correction of the mistakes in the past (TAS 8; 52).

In the application of a new accounting policy or in the correction of the errors related to the past period, management predictions in a past period or in the prediction amounts reflected in the financial statements, whether measured or explained should not be consider situations relative to later periods (TAS 8; 53). For example, in accordance with the standard of "TAS 39 Financial Instruments: Recognition and Measurement", although a business has decided to hold a financial asset-related error to be evaluated until after maturity, the business should not change the measurement principle. In addition, in accordance with the standard of "TAS 19 Employee Benefit" related to employees' sick leave, a business should not consider this information relevant to the periods arising after the last period of financial statements when calculating liabilities.

To change the comparative information related to the past period, a frequent requirement of important predictions, one cannot prevent the correction or change of the comparative information related to the past periods in a reliable manner.

4.5. Accounting Estimation

The IASB's CFW for financial reporting is not an IFRS. However, the CFW is part of the IFRS hierarchy of financial reporting rules, as described in paragraphs 10 through 12 of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The IFRS hierarchy provides that, when a transaction is not specifically covered by an IFRS, a preparer can consult, in descending order: another IFRS for a similar transaction; the CFW; and, finally, pronouncements by other standard setters that use a similar CFW (Henry and Holzmann, 2011).

The change in accounting estimations is described as the corrections required resulting from the evaluation of the benefits and liabilities expected in the future because the change in periodic usage quantity. The changes in accounting estimations may result from new information or development. Many financial statement elements cannot be measured precisely because of the current uncertainties in management activities. The estimations must be determined based on the most current and reliable information. For example, doubtful accounts, stocks that discontinued, the values of financial assets or liabilities that are realistic, the beneficial life of the assets subjected to amortization or expected utilization types of the economic benefits in the future or warranty liabilities.

If the effects of the change in accounting estimations create difference in the book values of asset, foreign source or equity units, these must be corrected in the period when the change is made (TAS 8; 37). The reflection of a change's effect in an accounting estimation is meant to be applied in the transitions, events and conditions after the date the change is made in the estimation.

A change in the accounting estimation can affect the current period solely as well as the current and future periods jointly. For example, a change in the amount of bad debts affects only the current period, thus, this change is reflected to financial statements within this period. However, the useful life of the assets subjected to amortization expenses in each period in the remaining useful life of the asset. In both situations, the effect of the change in current period is reflected to the income statement. If there are any effects on the future periods, the effects are reflected on financial statements in future periods (TAS 8; 38).

According to Table 1, reported assets of this firms that changes in accounting policy, as I explain earlier, can be voluntary.

4.6. Accounting Error and Frauds

Accounting fraud is an indicator of extreme distortion and lack of timeliness in the accounting (Armstrong et al., 2010). Young (1996) favors the CFW as a form of institutional thinking that limits both the definition of, and solutions to, accounting context. Similarly, Erb and Pelger (2015) stated that qualitative characteristics define the boundaries of what the regulators believe appropriate financial reporting. These is showed in the recurring use of qualitative characteristics in the framing of accounting problems by regulators, accounting professions, and academics.

The accounting supervisor's main duty will be to judge the financial statements he supervised. However, in addition to this main duty, it is expected that the supervision work will identify the errors and frauds in the institutions' records and financial statements. Accounting errors emerge during the recognition of the units in financial statements, their measurements, presentation and explanation. If financial statements include any application or include an important error related to incorrectly indicating the business' financial position, its performance or cash flows, these must be corrected because this situation does not adhere to Turkey Financial Reporting Standards (TFRS), in addition, these must be corrected as soon as they are noticed. This behaviour weakens the reliability of the financial statements. However, in certain situations, the errors are noticed after, and these past errors are corrected in the comparative information in the financial reports related to the periods that follow.

With the growth of the business and development of the activities, the qualities of the transitions performed with the third party are becoming more complicated and their numbers are increasing. The increasing complexity of the transitions and the increase in their numbers increase the possibility of incorrectly processing record. Not identifying these types of errors diminishes the reliability of the submitted information.

The presence of the accounting errors and frauds negatively impact the quality and reliability of the financial reports. Whether this results from misuse of accounting policies and mathematical errors or from the incorrect interpretation of financial information, the presence of error and frauds will be understood as form of carelessness by the institution regarding realistic, reliable, understandable and transparent financial information and will be regarded as misleading financial statements by users. This situation will decrease the reliability of firm's financial statements.

4.7. Conservatism

According to FASB, the conservatism is defined as a prudent reaction to uncertainty to attempt to ensure that uncertainty and risks inherent in business situations are adequately considered. The traditional definition of conservatism implies a consistent understatement of both book value of shareholders' equity and of earnings (García Lara and Mora, 2004). The definitions of conservatism imply a persistent understatement of book value of shareholders' equity (balance sheet conservatism) and a timelier recognition of bad news in earnings relative to good news (earnings conservatism). García Lara and Mora (2004) suggest that conservatism reduces auditors' and managers' liability exposure; these individuals are thus expected to have increased the asymmetric timeliness of earnings in response to increases in their legal liability exposure.

García Lara et al. (2014) stated conservatism makes it costly for managers to deviate from the firm's true earnings in accounting reports, constraining management's opportunistic financial reporting behaviour. Conservatism benefits the users of financial statements by constraining managers' opportunistic payments to themselves and to other parties such opportunism includes investment decisions, debt increases and other contractual agreement (García Lara, Osma and Penalva, 2009a).

Thus, conservatism can be used as a mechanism to motivate managers to reduce losses earlier and abandon poorly performing projects. In addition, conservatism facilitates the monitoring of debt contracts written based on conservative numbers. In the academic literature, two different types of conservatism exist, conditional and unconditional (García Lara and Mora, 2004; Gebhardt et al., 2014). The first form of conservatism is conditional on news whereby bad news is reflected more quickly and more strongly than good news (Ryan, 2006). Bad news is recognized in the income statement, whereas good news is disclosed through other channels such as the notes to the financial statements (García Lara, Osma and Penalva, 2011). Studies have shown that such conditional conservatism is more pronounced in economies in which debt markets are relatively more important. For instance, conditional conservatism includes lower of cost or market accounting for inventory and impairment accounting for long-lived tangible and intangible assets.

Garc´ıa Lara, Osma and Penalva (2009) stated that conditional conservatism exists when economic losses are recognized in the income statement faster than economic gains. Recent research suggests that conditional conservatism is important in debt contracting (Ball et al., 2008; García Lara, Osma and Penalva, 2009; Gebhardt et al., 2014). Conditional conservatism arises from efficient contracting needs and impounds a negative bias in accounting income as a measure for contemporaneous economic income (Brown, He and Teitel, 2006). Empirical and analytical research shows that conservatism is valuable because it facilitates the monitoring of these contracts, improving the efficiency of contracting ex-ante by providing lenders with information (García Lara, Osma and Penalva, 2009); in addition, conservatism reduces the cost of debt, facilitates access to additional debt funds, and reduces risk shifting and shareholder-bondholder conflicts over dividends. Hence, conservatism is preferred by debt holders either directly or through price protection, it is preferred by equity holders because they incur the residual agency cost (Gebhardt et al., 2014). Furthermore, conditional conservatism limits the available opportunities for successful manipulation of the reported variables included in debt contracts to expropriate from lenders. Thus, it is predicted that debt holders will demand conditionally conservative earnings (García Lara et al., 2009). However, the financial reporting practices leading to conditional conservatism, such as timely loss provisioning and asset impairment, generally are not allowed for income tax purposes (Ball et al., 2008).

Second, conservatism is called as unconditional concept for the accounting process determined at the inception of assets and liabilities yield expected unrecorded goodwill (Beaver and Ryan, 2005). For example, unconditional conservatism includes immediate expensing of the costs of most internally developed intangibles, depreciation of property, plant, and equipment that is more accelerated than economic depreciation, and historical cost accounting for positive net present value projects.

Unconditional conservatism, occasionally called ex ante or news independent conservatism, is an accounting measurement bias that is unaffected by the characteristics of the event that is measured. A commonly cited example of unconditional conservatism is the immediate expensing of all research and development (R&D) irrespective of the probabilities of success of the underlying R&D projects. For conditional conservatism, called ex post or news dependent conservatism, the extent of conservatism in the accounting measurement depends on the characteristics of the event being measured (Gigler et al., 2009). For example, there is usually a lower of cost or market feature in accounting for inventory and asset impairments.

In contrast to unconditional conservatism, the conditional form of conservatism increases the contracting efficiency of reported accounting information. Thus, unconditional conservatism could lead to lower agency costs and litigation risks and possibly facilitate managerial opportunism. The main finding is that firms that provide IFRS disclosures apply conditional conservatism in their financial statements. However, these firm restrict unconditional conservatism, thereby further enhancing the quality and usefulness of the reported accounting numbers and increasing investors' confidence in company management. Hence, higher quality in financial reporting would indicate that more losses and difficult-to-verify items are reflected in company financial statements (Iatridis, 2011).

According to Basu (2005), conditional conservatism is likely to improve contracting efficiency because it employs new information, whereas unconditional conservatism will likely reduce contracting efficiency because it does not. This argument shows that unconditional conservatism is likely a response to regulatory or tax incentives, whereby the firm attempts to ameliorate the potentially punitive effects of state policies.

5. CONCLUSION

In this study I have examined the demand for a CFW from an information literature perspective. The purpose of this study is to define, classify and interpret the existing literature on the role of financial reporting within the conceptual framework, to present a summary of the prior studies and thus to offer an empirical literature support for further and future researches.

The main contribution of this paper is related to further comprehension of the restrictions of CFW within the context of the financial reporting by detecting and classifying useful references for future and further research. The role of financial reporting within the conceptual framework is provide to guidance for preparers, analyst, practitioners and auditors of accounts to deal with transactions which are not the subject of a specific accounting and financial reporting standard. Although some restrictions mentioned above, conceptual framework remains the best available guidance for financial reporting setting certain items in financial statements, and so it is surely possible that CFW and the conditions of its application could be further improved. In this context, I argue that it is crucial important for the revised CFW to provide guidance on the financial reporting concept.

The CFW has existed for a long time, and accounting regulation has existed much longer. Much regulation has been a consequence of observed business failures. The globalization of trade and business has led to a call for harmonization of financial reporting standards around the globe and consequently FASB and IASB have joined forces to create one set of IFRS (Christensen, 2010). Over the years, many bodies developed and published their own CFWs, but no single framework was universally accepted. FASB and the IASB have agreed on a joint project to develop a common and improved CFW, which has resulted in the present interest in the development of a new standard.

Therefore, there is a transformed impetus in the IASB and FASB to develop a CFW for financial reporting for both private sector and public-benefit entities. Combining these developments will lead to a meaningful CFW for both private sector entities and public-benefit entities, as well as lead to meaningful and useful information for all. Moreover, the CFW must provide a sound foundation for developing future financial reporting standards. This is essential to fulfilling the boards’ goal of developing financial reporting standards that are principles-based instead of rules based standards, internally consistent, and internationally converged. However, there are certain restriction in the CFW for financial reporting. For example, conservatism is a mentioned characteristic of financial information. However, conservatism is not a desired qualitative characteristic; instead, it is a practical justification for certain financial reporting practices. These restrictions impact the financial analysis. Therefore, when analyzing financial statements in which the obtained information is reported, these restrictions must certainly be evaluated. Further research could determine the relationship between restrictions in the conceptual framework and financial reporting of firm value.

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The author acknowledges that a large and growing body of literature exists on accounting. However, this literature does not explicitly examine the restriction in the CFW for financial reporting. Therefore, in this paper’s discussion, I will contribute to the literature on to the current debate on these issues, which shed light on accounting and IFRS.

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