

## TEACHING TIP

### LESSON: FINANCIAL ACCOUNTING CONCEPTS: As Promulgated by the FASB

#### *Abstract*

*In my opinion, the greatest obstacle for traditional students to overcome when studying Accounting is their lack of work and life experience. I submit as anecdotal evidence my positive experience when teaching non-traditional students who seem to appear on campus especially during challenging economic times. Work and life experience promotes an ability to think abstractly. Since teachers can not provide such experience to their students, then the alternative is to provide them with a theoretical foundation. Such a foundation is available in the FASB's financial accounting concepts. Without these concepts, traditional students will completely lack any point of reference in accounting studies beyond the primary level. At the start of the first Intermediate Accounting course, a week should be devoted to the Financial Accounting conceptual framework. This teaching tip borrows from traditional Journalism that writes a story by answering six critical questions. These questions help student's get a handle on what value Financial Accounting tries to provide society in an ever-changing world.*

Traditionally, newspaper reporters wrote objective stories designed to answer the following six questions: Who? Why? Where? What? How? When?

These six classic journalistic questions serve as an excellent organization tool for a teacher to portray accounting concepts and for students to study these concepts.

My presentation follows.

1. **Who?** Who uses the product that Financial Accounting Concepts provide? Decision makers who have a reasonable understanding of Business and Economics.
2. **Why?** Why do decision makers need Financial Accounting Concepts? The objectives of Financial Accounting Concepts explain decision maker's needs.
  - a. For credit or investment decisions.
  - b. To analyze cash flows.
  - c. To identify economic resources and the claims on those resources. (To reach these objectives, Financial Accounting Concepts must be Understandable and promote Decision Usefulness.)
3. **Where?** Where do Financial Accounting Concepts take place? In an environment that contains certain assumptions.
  - a. An economic entity rather than a legal entity.
  - b. Periodicity not to exceed one year.
  - c. A going concern free from the burdens of imminent bankruptcy.
  - d. A monetary unit consisting of the stable United States dollar.
4. **What?** What constitutes Financial Accounting Concepts? The concepts consist of fundamental financial statement building blocks (elements) and resulting information that contains certain qualitative characteristics.
  - a. The Financial Accounting Elements are defined:
    1. Assets
    2. Liabilities
    3. Equity or Net Assets
    4. Investments by and Distributions to Owners
    5. Comprehensive Income
    6. Revenues
    7. Expenses
    8. Gains and Losses
  - b. Primary Qualitative Characteristics
    1. Relevance (Predictive value, feedback value, and timeliness.)
    2. Reliability (Representational faithfulness, verifiability, and neutrality).
  - c. Secondary Qualitative Characteristics
    1. Comparability (between entities)
    2. Consistency (within an entity's accounting periods.)

5. **How?** How are Financial Accounting Concepts implemented? By following Certain principles the concepts are put into practice.
  - a. Historical Cost principle forms the basis for asset recognition.
  - b. Realization principle provides a guide for revenue recognition.
  - c. Matching principle facilitates expense recognition and ultimately income calculation.
  - d. Full disclosure principle enables footnotes to fill in information gaps left by currently required financial statements.
  
6. **When?** When should Financial Accounting Concepts modify the principles that form implementation theory found in the answer to the “How” question. Certain modifying conventions answer the “When” question.
  - a. Materiality allows convenience over conventional accounting methods when the difference in treatments is not significant.
  - b. The cost benefit rule maintains that the cost of information should not be greater than the benefit derived.
  - c. Industry practices allow a unique accounting treatment when its implementation presents information that is more useful to decision makers.
  - d. Conservatism provides guidance as to what to do when more than one acceptable method is available. Conservatism says to select the principle that has the least favorable result on the financial report.

At this point I go to specific text and CPA exam questions dealing with the Statements of Financial Accounting Concepts. We analyze what the objective questions ask and relate them to the six journalistic questions. I have the students refer to their notes in class until the six journalistic questions become innately understandable in relation to a particular style of CPA (objective) question.

## REFERENCES

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