

# Using the FASB's Conceptual Framework: Fitting the Pieces Together

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## INTRODUCTION

The conceptual framework adopted by the Financial Accounting Standards Board (FASB) offers the accounting profession an opportunity to develop a new, more consistent, and logical accounting model. A model is described here that can help accountants to understand the relationships between the individual concepts statements presented by the FASB. This model suggests that the framework, as currently conceived, is sufficiently complete to be applied to situations where accounting choices must be made. Developing an understanding of how the individual parts of the conceptual framework interrelate is a first step in learning how the framework might be applied in practice and, correspondingly, learning how to use it effectively.

### A MODEL FOR EVALUATING THE LOGICAL CONSISTENCY OF A CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

To further understand the FASB's conceptual framework and how it might be used in practice, a model that describes the relationships between the individual FASB Statements of Financial Accounting Concepts (SFAC) is needed. One such model, which has been used to represent the conceptual process involved in the selection of accounting concepts and procedures, is presented by the American Accounting Association's Committee on External Reporting.<sup>1</sup> The report of the Committee presents a four-tier model consisting of:

- (1) Variables and relationships,
- (2) Object or activity inputs,
- (3) Attributes, and
- (4) Measurement procedures.

The latter three tiers represent the essence of measurement theory. For example, objects represent things that we would like to describe through measurement; attributes are the observable properties of objects (such as size, weight, or color); and measurement procedures describe how the measurement shall be taken.<sup>2</sup> A description of each of the four tiers follows:

### Variables and Relationships

The essential variables and their relationships must be defined by the users of financial reports. This tier is represented by the decision model(s) of the user. That is, the decision model specifies a dependent variable which the user is interested in predicting, a set of independent variables useful in predicting the dependent variable, and the relationships of the independent variables to that dependent variable. For example, the dependent variable could be the investor's expected return. The independent variables might include the enterprise's net resources and the flow of goods and services to and from the enterprise. The relationships would specify how the flow of goods and services to and from the enterprise, as well as its stock of resources, might be utilized to measure and/or predict the return on investment.

<sup>1</sup>American Accounting Association, Committee on External Reporting, "An Evaluation of External Reporting Practices: A Report of the 1966-68 Committee on External Reporting," *Supplement to the Accounting Review* (1969), pp. 79-123. A similar model is presented by C. William Emory, *Business Research Methods* (Homewood, IL: Richard D. Irwin, Inc., 1980), pp. 135-39.

<sup>2</sup>For further discussions of measurement theory see, for example, Emory, *Business Research Methods*, p. 118; J. Pfanzagl, *Theory of Measurement* (New York: John Wiley & Sons, Inc., 1968), pp. 15-16; and Warren S. Torgerson, *Theory and Methods of Scaling* (New York: John Wiley & Sons, Inc., 1958), pp. 9-10.

## Object or Activity Inputs

Object or activity inputs are used to represent the independent variables that may be useful in measuring the dependent variable. If the dependent variable is the investor's expected return, and the relationships define how the flow of goods and services and the enterprise's net resources may be used to measure expected return, then inputs that represent the flow of goods and services and the net resources are needed. Traditionally, revenues and expenses have been used to represent the flow of goods and services, and assets and liabilities have been used to represent the net resources of the enterprise. For example, inventory represents a resource (an asset) of the enterprise. Correspondingly, cost of goods sold represents an outflow of resources (an expense) from the enterprise to others.

## Attributes

An attribute is a property of an object or activity input which is to be measured. An attribute incorporates both a measurement concept and a time dimension.

There are two basic measurement concepts for financial attributes: (1) nominal dollars, and (2) real, or constant, dollars. At present, financial reporting requires measurement in nominal dollars. No adjustment is made to these nominal dollar measurements to reflect the impact of changing price levels. For example, under the historical cost principle, inventories are recorded in nominal dollars. When the financial statements are prepared, the inventory is included at the recorded amount. An alternative would be to restate the inventory cost to real dollars by indexing for changes in the price level.

Three time dimensions are available for financial attributes: (1) past, (2) present, and (3) future. For example, an attribute of inventory might be its historical cost to acquire. This attribute embraces a time dimension, the cost to acquire the inventory in the *past*. An alternative attribute might be the current cost to acquire the inventory. This would incorporate a different time dimension, the cost to purchase the inventory at the *present* time.

## Measurement Procedures

The measurement procedures are the rules for measuring an attribute. For example, the

procedures for measuring the historical cost attribute of inventories would have to specify how inventory records will be maintained—either periodic or perpetual—and which cost flow assumption will be used—Lifo, Fifo, weighted-average, or some alternative cost flow. In addition, procedures for applying the lower of cost or market rule would have to be specified.

## Connecting the Four Tiers

An important aspect of the four-tier model that should not be overlooked is the need to develop logical connections between each set of the tiers.<sup>3</sup> This requires that criteria for choosing between accounting alternatives be specified (either explicitly or implicitly). These decision criteria form the logical connections between the tiers.

For example, the decision to adopt either Lifo or Fifo for valuing inventory and cost of goods sold requires criteria for making this choice. Since both Lifo and Fifo provide reliable data, some alternative decision criterion must be used.

Ignoring income tax effects, the proponents of Lifo most frequently argue that this cost-flow assumption matches more recent costs against current revenues, providing a better measure of current earnings. Alternatively, proponents of Fifo argue that this cost-flow assumption provides a better valuation of the inventory, enhancing the evaluation of working capital. Implicitly, the Lifo proponents are suggesting that the statement of earnings is more useful to users of financial reports than the statement of financial position. Conversely, the Fifo proponents are suggesting that the statement of financial position is more useful than the earnings statement. Obviously, each group has a different perception of the *relevance* of the statements of earnings and financial position to users of financial reports.

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<sup>3</sup>Robert R. Sterling suggests that logical connections have been absent in past attempts to develop conceptual frameworks. Their absence, he notes, has resulted in concepts that are useless and thus ignored by the accounting profession. Sterling, "The Conceptual Framework: An Assessment," *Journal of Accountancy* (November 1982), pp. 103-8.

**EXHIBIT 1**  
**THE FOUR-TIER MODEL ILLUSTRATED**

Model Tiers and Logical Connections	Illustrative Example
Variables and relationships.	<p><b>First tier:</b></p> <p>Variables = Investor's expected return; the net resources of the entity; the flow of resources to and from the entity.</p> <p>Relationships define how the net resources and the flow of those resources can predict the investor's expected return.</p>
Decision criteria for selecting the object or activity inputs.	Information useful for assessing the investor's expected return.
Object or activity inputs.	<p><b>Second tier:</b></p> <p>Assets, liabilities, revenues, expenses, etc. For example, inventory would be an asset and cost of goods sold would be an expense.</p>
Decision criteria for selecting an attribute to be measured.	Select a relevant attribute measurable with sufficient reliability.
Attributes (properties). <ul style="list-style-type: none"> <li>- Measurement concept.</li> <li>- Time dimension.</li> </ul>	<p><b>Third tier:</b></p> <p>Historical cost to acquire.</p> <ul style="list-style-type: none"> <li>- Nominal dollars.</li> <li>- Past.</li> </ul>
Decision criteria for establishing the measurement procedures.	Criteria for selecting a system, a cost flow assumption, and any other recognition or disclosure issues.
Measurement procedures.	<p><b>Fourth tier:</b></p> <p>Perpetual vs. periodic; Lifo vs. Fifo, etc.; lower of cost or market.</p>

**USING THE MODEL TO DEVELOP A CONCEPTUAL FRAMEWORK**

A well conceived and fully developed conceptual framework should consider each of the four tiers as well as the logical connections between tiers. The FASB's conceptual framework, in conjunction with existing accounting standards, does consider each of the four tiers and the logical connections between them.

In addition, each tier in the model should be considered sequentially in developing new reporting standards or practices and in evaluating existing standards and practices. That sequential process should help to logically direct the development of accounting standards and practices by assisting in selecting a dependent variable, identifying object or activity inputs

and their related attributes, and establishing appropriate measurement procedures. The four tiers, and the examples used in describing each tier, are depicted in Exhibit 1.<sup>4</sup>

**THE FASB's CONCEPTUAL FRAMEWORK PROJECT**

At the present time, the FASB has issued Statements of Financial Accounting Concepts

<sup>4</sup>A model similar to that depicted in Exhibit 1 was also presented by the AAA Committee on External Reporting as a flowchart incorporating the standards proposed by *A Statement of Basic Accounting Theory* [AAA, 1966]. These standards are omitted in Exhibit 1, but they would be analogous to the connections between each of the four tiers.

**EXHIBIT 2**  
**THE FOUR-TIER MODEL AND THE CONCEPTUAL FRAMEWORK**

Model Tiers and Logical Connections	Conceptual Framework
	<b>First tier:</b>
Variables and relationships.	Unspecified.
Decision criteria for selecting the object or activity inputs.	Objectives of financial reporting (Statement Nos. 1 and 4).
	<b>Second tier:</b>
Object or activity inputs.	Elements of financial statements (Statement Nos. 3 and 6).
Decision criteria for selecting an attribute to be measured.	Qualitative characteristics and recognition criteria (Statement Nos. 2 and 5).
	<b>Third tier:</b>
Attributes (properties).	Attributes (Statement No. 5). Also discussed in FASB Discussion Memorandum (1976).
Decision criteria for establishing the measurement procedures.	Qualitative characteristics and recognition criteria (Statement Nos. 2 and 5).
	<b>Fourth tier:</b>
Measurement procedures.	Generally accepted accounting principles.

(SFAC) concerning the objectives of financial reporting by business and nonbusiness entities, the qualitative characteristics of accounting information, the elements of financial statements, and recognition and measurement in financial statements.<sup>5</sup> Those statements constitute the FASB's conceptual framework. The following discussion illustrates how each of those statements (or portions of the statements) relates to the four-tier model. The relationship of existing accounting principles to the four-tier model is also illustrated. Those relationships are depicted in Exhibit 2.

### Variables and Relationships

*SFAC No. 1* states that the purpose of financial reporting is "to provide information that is useful to those who make economic decisions about business enterprises and about investments in or loans to business enterprises."<sup>6</sup> The diversity of potential users of financial information who make economic decisions about business enterprises requires that the objectives of financial reporting be "those of general purpose external financial reporting..."<sup>7</sup> Thus,

it is impossible to state for which specific user decision models financial reporting should attempt to provide data. This means that the variables and relationships of the first tier *cannot* be specified as part of the conceptual framework.

Accordingly, the objectives of financial reporting presented by the FASB are very general and emphasize the preparation of *useful* information. Because of the lack of specific user

<sup>5</sup> Financial Accounting Standards Board, "Objectives of Financial Reporting by Business Enterprises," *Statement of Financial Accounting Concepts No. 1* (New York: FASB, 1978); "Objectives of Financial Reporting by Nonbusiness Organizations," *SFAC No. 4* (New York: FASB, 1980); "Qualitative Characteristics of Accounting Information," *SFAC No. 2* (New York: FASB, 1980); "Elements of Financial Statements," *SFAC No. 6* (New York: FASB, 1985); "Elements of Financial Statements of Business Enterprises," *SFAC No. 3* (New York: FASB, 1980); FASB, "Recognition and Measurement in Financial Statements of Business Enterprises," *SFAC No. 5* (New York: FASB, 1984).

<sup>6</sup> FASB, *SFAC No. 1*, par. 16.

<sup>7</sup> *Ibid.*, par. 28

decision models, the usefulness of the data contained in the financial statements cannot be determined—rather, usefulness is a relative concept and accountants must attempt to discern *more* useful information from *less* useful information.

This can be rather discomfoting. If the FASB were to select a specific user decision model, then it would be much easier to determine what data would be the most useful. But that would also make the framework unworkable since it is unlikely that the decision model selected would meet the needs of all users (or even a majority of users). Thus, the first tier must, of necessity, remain unspecified.

Instead, the objectives operate as the logical connections between the object or activity inputs and the unspecified user-decision models. And even though *SFAC No. 1* does not specify a particular user decision model, it does suggest that the users of financial information are generally interested in the ability of the business enterprise to generate favorable cash flows to them.<sup>8</sup> The objectives reflect this emphasis on assessing cash flows:

Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans... Thus, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.<sup>9</sup>

Thus, more useful financial reports can be differentiated from less useful financial reports based upon the degree to which the reports assist users in assessing their future cash returns.

*SFAC No. 1* also states that “[t]he primary focus of financial reporting is information about an enterprise’s performance provided by measures of earnings and its components.”<sup>10</sup> This focus on earnings provides the rationale for using accrual accounting instead of cash-basis accounting. It also implies that users of financial statements consider the earnings statement to be the primary financial statement. This suggests that those accounting principles that provide better measures of current earnings, such as Lifo, are more useful and should

be preferred over alternative accounting principles.

In summary, *SFAC No. 1* suggests that the object and activity inputs that should be included in the financial reports are those that provide either direct or indirect measures of cash flow potential. Users of the financial reports should be able to use this information to assess the enterprise’s future cash flows and its ability to generate positive cash flows to the user.

### Object or Activity Inputs

*SFAC No. 6* defines ten elements of financial statements which represent the object or activity inputs needed to measure the performance and status of an entity. Those ten elements—assets, liabilities, equity, investments by owners, distributions to owners, comprehensive income, revenues, expenses, gains, and losses—are the “building blocks with which financial statements are constructed...”<sup>11</sup> The elements represent the independent variables desired by users for assessing future cash flows.

The definitions of the elements can be used as a “significant first screen in determining the content of financial statements.”<sup>12</sup> That is, if an item does not meet *all* of the essential characteristics of an element, then it should *not* be included in the financial statements. Alternatively, if an item does meet all of the essential characteristics of an element, then it *may* be considered for inclusion in the financial statements.

For example, assets are defined as “probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.”<sup>13</sup> More specifically, *SFAC No. 6* provides three essential characteristics of an asset:

- (a) it embodies a probable future benefit that involves a capacity, . . . , to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and

<sup>8</sup> *Ibid.*, pars. 25 and 30.

<sup>9</sup> *Ibid.*, par. 37.

<sup>10</sup> *Ibid.*, par. 43.

<sup>11</sup> FASB, *SFAC No. 6*, par. 5.

<sup>12</sup> *Ibid.*, par. 23.

<sup>13</sup> *Ibid.*, par. 25.

control other's access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred.<sup>14</sup>

Goods held in inventory meet the definition of an asset: The inventory has a probable future benefit through resale that will be evidenced by future net cash flows; the entity will obtain this benefit and can control the access of other entities to it; and the transaction (purchase of the goods) that provided the entity with control over this benefit has occurred.

Once an asset has been acquired, it continues to exist until the essential characteristics of the definition are no longer met. That is, either (a) the future benefit of the asset is impaired or destroyed, or (b) the entity can no longer obtain or control that benefit. For example, when goods included in inventory are sold, the entity loses its ability to control others' access to the future benefits of those goods. This would result in an *expense*. If, however, the goods were destroyed in a warehouse fire, the loss of future benefits would be a non-operating *loss*. If, instead, the future benefits of the goods are impaired because of obsolescence, this impairment would be an operating *loss*.<sup>15</sup>

The existence of a loss due to the impairment of future benefits suggests that a gain might also exist if the future benefits are enhanced. That is in fact the case. The definitions of a gain and of comprehensive income are sufficiently broad to include increases in value caused by an increase in the future benefits of the asset. However, it must be remembered that meeting the definitions is only the first screen—meaning that those gains *may* be considered for inclusion in the financial statements—not that they either must be or will be. *SFAC No. 6* states:

Particular items that qualify as assets or liabilities under the definitions may need to be excluded from formal incorporation in financial statements for reasons relating to measurement, uncertainty, or unreliability, but they are not excluded by the definitions.<sup>16</sup>

Consider research and development costs, for example. Those costs meet the three essential characteristics of the definition of an asset—they provide future benefits, the entity can control access to those benefits, and the transaction giving rise to the entity's right to those benefits has occurred. However, the uncertainty of those future benefits and the difficulty of their measurement are so great that no

asset is recognized and those costs are expensed as incurred.

### Recognition Criteria

*SFAC No. 5* provides four recognition criteria that must be met to incorporate an item into the financial statements. Those criteria include: (1) definitions of elements, (2) measurability, (3) relevance, and (4) reliability.<sup>17</sup> The definitions have already been discussed. The remaining three recognition criteria introduce attributes, the third tier in the model, and the qualitative characteristics (such as relevance and reliability).

### Attributes

The five attributes currently used in financial reporting are discussed briefly in *SFAC No. 5*.<sup>18</sup> These are: (a) historical cost, (b) current (replacement) cost, (c) current market value, (d) net realizable value, and (e) present value of future cash flows. Each of these five attributes is used in current practice.

As noted earlier, these attributes differ with respect to the time dimension incorporated in each. Historical costs are based on the *past*; current costs, current market values, and net realizable values are based on the *present*; and the present value of future cash flows is based on the *future*.

The monetary unit or measurement scale suggested by *SFAC No. 5* is nominal dollars. And unless inflation escalates dramatically, nominal dollars will continue to be used for accounting measures.<sup>19</sup>

<sup>14</sup> *Ibid.*, par. 26.

<sup>15</sup> The distinction between expenses and losses (and between revenues and gains) as parts of comprehensive income is primarily one of display. The primary purpose of making this distinction is to make the financial statements more useful (*Ibid.*, pars. 88-89).

<sup>16</sup> *Ibid.*, par. 47.

<sup>17</sup> *SFAC No. 5*, par. 63. The Statement notes that recognition is also subject to a cost-benefit constraint and a materiality threshold.

<sup>18</sup> *Ibid.*, par. 67. These five concepts are presented in more detail in FASB, "Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement," *FASB Discussion Memorandum* (New York: FASB, 1976). The reader is referred to this document for additional discussion of the concepts.

<sup>19</sup> *Ibid.*, pars. 71-72.

As an example, inventory is initially recorded at its historical cost—the amount paid to acquire the asset. However, when lower of cost or market is applied in preparing the financial reports, current replacement cost or net realizable value may be used instead of historical cost. Each of these three attributes, however, would be measured in nominal dollars, with no adjustment for changes in price levels.

### Selecting an Attribute

More important than the basic attributes, however, is the decision to select one or another of the attributes. How does one choose the most useful attribute in the circumstances?

This decision must be based on the qualities, or qualitative characteristics, of the data.<sup>20</sup> Those “qualities of useful accounting information should provide guidance in choosing between alternative ways of representing economic events.”<sup>21</sup> That is, the qualitative characteristics should assist accountants in distinguishing information which is more useful from that which is less useful.

The two primary qualities of accounting information presented in *SFAC No. 2* are summarized in the third and fourth recognition criteria—those qualities are relevance and reliability. If either of those qualities is completely absent, the resulting financial reports will not be useful. If information lacks the ability to make a difference in user decisions, it is irrelevant and thus useless. Alternatively, if information is not reliable, then it cannot be trusted or relied upon and is also useless.

Individuals are likely to have different opinions on the importance of each of the two primary qualities in any set of circumstances. The overriding concern, however, should be to provide the most useful information for decision making.

*Relevant information.* In order to be relevant, information must have either predictive ability or feedback value and it must be communicated in a timely manner.

Essentially, information has predictive ability or feedback value if it can assist users in reducing uncertainty. Thus, information which aids users in more accurately assessing the amounts, timing, and uncertainty of future cash flows would be preferred.

This information must also be received in a timely manner. Timeliness explains why the use of estimates is so pervasive in financial

reporting. Estimates are used to provide information to users about the effects of uncertain events and transactions in a timely manner. Thus, estimates are a response to uncertainty, aiding users in assessing the amounts, timing, and uncertainty of future cash flows.

Assessing the amounts, timing, and uncertainty of future cash flows related to inventory suggests that historical costs would probably not be the most relevant attribute (especially in periods of changing prices). Rather, current costs would probably be more relevant to users. However, because of reliability issues, a current cost system for inventory is unlikely to be adopted.

*Reliable information.* To be reliable, information must be representationally faithful, verifiable, and neutral. These characteristics help assure that the information in financial reports can be relied upon for decision-making purposes.

Representational faithfulness means that there is a correspondence between what measures appear in the financial statements and what those measures purport to represent. For example, the inventory on the balance sheet should correspond with an existing inventory. If the inventory does not exist, or if its value has been impaired, then the measure is not representationally faithful.

Obtaining verifiable information helps to minimize bias on the part of the measurer. Verifiable information implies that a consensus or agreement can be reached by different measurers in taking the same measurement. For inventory, the historical cost attribute is the most verifiable; that is, different measurers are likely to agree on the historical cost of the inventory. In cases where the inventory's value has been impaired (such as through obsolescence), the market value of the inventory can usually be verified. However, in cases where the inventory's value has been enhanced, the

<sup>20</sup>The qualitative characteristics are pervasive—they can be utilized as decision criteria, or logical connections, in going between any two of the four tiers. Their primary applications, however, are as the connections between the object or activity inputs and the attributes to be measured, and between the attributes and the measurement rules. Correspondingly, the recognition criteria, which are derived largely from the qualitative characteristics, are most useful between these same sets of tiers.

<sup>21</sup>*SFAC No. 2*, par. 11.

market value of the inventory is much less likely to be verifiable. (It is easier to obtain agreement on the amount of an unrealized loss than it is the amount of an unrealized gain.)

Reliable information must also be neutral. That is, the information should not be presented so as to influence behavior in a particular direction—it should be concerned primarily with providing useful information.

Selecting the most useful attribute is a difficult decision, but one which must be made. Both relevance and reliability must be considered, and it may be necessary to make tradeoffs between these two primary characteristics. For inventory, it would appear that market values are more relevant than historical costs for assessing future cash flows. However, historical costs are more reliable than market values. Market values that reflect a loss in the utility of the inventory appear to be adequately reliable, however, and either the current cost or net realizable value attribute should be used. In general, market values that reflect a gain in the utility of the inventory are not sufficiently reliable to warrant the use of a market value based attribute.

### Measurement Procedures

The final step in the four-tier model is the establishment of the measurement procedures. Establishing the measurement procedures must reflect the information needs of users, the elements involved, the attributes to be measured—in short, all of the previous tiers and decisions which had to be considered—as well as any further recognition and display issues. These procedures make up the content of generally accepted accounting principles (GAAP).

*SFAC No. 5* provides general guidance for establishing these measurement procedures or GAAP. In addition to the recognition criteria discussed earlier, *SFAC No. 5* discusses what a full set of financial statements should include, as well as the need for classification and aggregation of the information to be included in the financial statements.<sup>22</sup> The Statement also provides more detailed guidance for the recognition of revenues and expenses.<sup>23</sup>

In general, revenues should not be recognized unless they have been earned and have either been realized or are realizable. This means that the entity must have performed substantially all that is required of it to be entitled to the benefits of the revenues, and the

related assets have been exchanged for cash or claims to cash. For inventories, this generally means that no revenue will be recognized until the point of sale—the point at which substantial accomplishment occurs and the revenue is earned. Point of sale would also correspond with the exchange of the inventory for cash or claims to cash. For certain items, such as precious metals and long-term construction contracts, production may be the point of substantial accomplishment. If the asset is readily convertible to cash or claims to cash, recognition may be appropriate.

Expenses should be recognized when it is apparent that the future benefits to be derived from the asset no longer exist or have been impaired. Recognition may be accomplished by matching the expense with related revenues, by expensing costs in the period benefited, or by a systematic and rational allocation of cost to expense over the periods benefited by the related asset. The method of expense recognition chosen is closely related to the costs/benefits and the materiality of the amounts involved.

Finally, given all else is equal, *SFAC No. 2* suggests that an alternative is preferred if it enhances comparability.<sup>24</sup> This would also encompass consistency of accounting methods and procedures from period-to-period as well as for similar items within a single accounting period. For example, current accounting standards require that lower of cost or market in the aggregate be applied to current marketable equity securities at year-end. This accounting treatment need not be applied, however, to current marketable debt securities. Consistency suggests that debt securities should be accounted for in the same manner as equity securities. Thus, lower of cost or market would be the preferred accounting method for current marketable debt securities.

### CONCLUSIONS

The concepts and interrelationships of the six Concepts Statements have been examined in the context of the four-tier model. This suggests that the provision of useful information requires careful consideration of the needs of

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<sup>22</sup> *SFAC No. 5*, pars. 13-57.

<sup>23</sup> *Ibid.*, pars. 83-87.

<sup>24</sup> *SFAC No. 2*, pars. 111-122.

users of financial reports, the definitions of the elements of financial statements, the attributes of the elements to be measured, and the rules for taking those measurements. In addition, decision criteria which could be used to logically connect each of the four tiers were essential. The most fundamental of those criteria are the qualitative characteristics. Those characteristics, such as relevance and reliability, assist in making accounting choices.

The FASB's conceptual framework offers the accounting profession an opportunity to de-

velop greater consistency in accounting standards and practices. In terms of the model presented, the FASB's conceptual framework appears to be relatively complete and should be usable in practice. This is not to suggest, however, that its use will be simple or that the framework can be easily applied. Rather, accountants must continue to improve their understanding of the conceptual framework. Only then will they be able to use the conceptual framework to more effectively and efficiently resolve accounting practice problems.