



The Role of Accounting Conceptual Framework in Neoliberalism

Farhani Kautsar Nugraha¹, Ananta Wahyu Sasongko², Rizka Dibi
Arryanti Saputri³

¹Department of Digital Business, Tuban Institute of Technology and
Business, Tuban Indonesia

²Department of Accounting, Faculty of Economics and Business,
University of Merdeka Malang, Malang, Indonesia

³Department of Retail Management, Tuban Institute of Technology and
Business, Tuban Indonesia

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***Corresponding**

Author:

farhanikn@itbtuban.
ac.id

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ABSTRACT

Purpose: This article discusses the relationship between accounting regulations and neoliberalism. It will also discuss changes to the conceptual framework developed by the two financial accounting standard boards, namely the IASB and FASB.

Methodology/approach: This article uses a conceptual review paper methodology on accounting theories and existing research to analyzes the conceptual framework developed by the IASB and FASB.

Findings: The conceptual framework developed by the IASB and FASB plays a role in the survival of neoliberalism and the financialization of the capital market

Practical implications: This article presents a thorough overview of the primary concerns associated with accounting conceptual framework and contributes to the ongoing discussion on standard setting.

Originality/value: This paper offers an understanding of the key aspects of the accounting conceptual framework that are closely related to neoliberalism.

Keywords: Accounting Conceptual Framework; Financial Accounting Standard; Neoliberalism.

Office:

Department of
Accounting
University of
Muhammadiyah
Malang
GKB 2 Floor 3.
Tlogomas St 246,
Malang, East Java,
Indonesia

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INTRODUCTION

Based on agency theory, the principal will know the future economic benefits of the agent by examining the financial position and performance of the company presented through financial statements (Georgescu et al., 2014). Accounting information is very useful for report users to make decisions. Thus, during the global financial crisis, accounting regulators worked hard to develop a conceptual framework, especially to strengthen the market (Zhang & Andrew, 2014). The IASB as a standard setter has succeeded in compiling accounting standards based on global business, but still has the challenge of developing a new conceptual framework (Wagenhofer, 2009).

In addition, neoliberalism has been actively implemented and reproduced by the state during the last three decades (Cahill, 2010). The conceptual framework developed by the regulators has an important role in the architecture of neoliberalism. This article will discuss the relationship between accounting regulations and neoliberalism. It will also discuss changes to the conceptual framework developed by the two financial accounting standard boards, namely the IASB and FASB. However, the focus of discussion regarding this conceptual framework lies in the IASB/FASB project phase A which was completed in September 2010.

LITERATURE REVIEW

Accounting Conceptual Framework

According to Deegan & Unerman (2006), the definition of a conceptual framework is a coherent system consisting of interrelated goals and fundamental concepts, which are expected to become the basis for setting consistent standards. This definition is consistent with the statement in SFAC No. 8 compiled by the Financial Accounting Standard Board (2010) namely:

“The conceptual framework is a coherent system of interrelated objectives and fundamental that is expected to lead to consistent standard and that perscribethethe nature , function and limits of financial accounting and reporting.”

To develop global financial reporting practices, two accounting standards boards namely the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) collaborated to develop a conceptual framework. But in 2014 the two boards stopped working together and developed their conceptual frameworks.

Rules-based accounting standards are very detailed and there are many difficulties in understanding (Nelson, 2003; Schipper, 2003), while principles-based provide more flexibility for issuing professional judgment (Benston et al., 2006). The conceptual framework is considered a foundation in accounting (Mala & Chand, 2015), so it is used to develop standards that are principles-based, consistent, convergent, and direct to financial reporting that produces information for decision-makers. One of the uses of accounting information for users of financial statements is based on the results of qualitative characteristics. According to the IASB, the qualitative characteristics of financial statements include relevance, reliability, and understandability.

According to Gaffikin (2008), the qualitative characteristics of financial statements consist only of being understandable, relevant, reliable, and comparable. Whereas Deegan & Unerman (2006) only describes four main qualitative characteristics, namely reliability, relevance, understandability, and comparability. According to him, it appears that the IASB framework gives greater prominence to reliability and relevance than comprehensibility and comparability. The need for a conceptual framework is as follows: (1) The conceptual framework will increase the understanding and confidence of users of financial statements on financial reporting, and will increase the comparability between companies' financial statements; (2) New problems can be solved quickly when referring to the existing theoretical framework.

The IASB and FASB have their conceptual frameworks. The IASB's conceptual framework is for preparing financial statements consisting of 110 paragraphs. Meanwhile, the FASB's conceptual framework includes seven substantial concept statements. However, none of these conceptual frameworks has been able to solve problems related to measurement and its use for decision-makers, especially investors as the focus of general purpose financial statements (Whittington, 2008).

Concepts in generally accepted accounting principles (GAAP) are rules issued by the FASB. Then when the Enron case occurred, it included 2500 rules. The result is difficulties for accountants, auditors, and users of accounting information to understand and interpret these rules in detail, and the fall of Enron is evidence that the key rules in GAAP still have room for manipulation (Mala & Chand, 2015).

The IASB/FASB developed a conceptual framework for purposes that focus on external decision-makers. Then also to find the ideal type of financial statements to be used as a basis for making investment decisions or similar decisions in small businesses, the private sector, the public, and non-profits. The 2010 conceptual framework focused on financial reporting, while 1989 focused on financial statements (Mala & Chand, 2015).

Financial statements are prepared periodically to provide information to various report users. The IASB and FASB projects began in 2005 and consisted of 8 phases, namely: objectives and qualitative characteristics (phase A); elements and recognition (phase B); measurement (phase C); reporting entity (phase D); presentation and disclosure (phase E); goals and status (phase F); applications for non-profit entities (phase G); remaining issues (phase H).

METHODS

This article uses a conceptual review paper methodology on accounting theories and existing research to analyzes the conceptual framework developed by the IASB and FASB.

RESULT

Implications for The Revised Conceptual Framework

Revisions to the conceptual framework can be made from time to time, in line with the experience of the financial accounting standard-setting committee in using the conceptual framework. The conceptual framework jointly developed between the IASB and FASB should provide a meeting point between the

objectives of financial reporting, namely to produce financial information from reporting entities that are useful for investors and creditors in making decisions. In addition, it also represents transparently the information needed by external decision-makers.

In the revision of the conceptual framework, groups of users of financial statements are specified as providers of capital, such as investors and creditors. The narrowing of this definition has implications for the context of financial reporting (Murphy et al., 2013). This group of capital providers eventually became the main focus for standard setters in making accounting regulations.

Neoliberalism and The Capital Market

Historically, the economics of capitalism as the root of neoliberalism has shown its undeniable crisis performance. The 2007-2008 crisis can be called a trend that leads to the accumulated economic collapse of capitalism. This accumulation trend was seen since 1923, then repeated in 1930, 1940, 1970, 1980, 1990, and 1998-2001. The 2000-2001 financial crisis in the United States peaked when the worst corporate scandals in the last 70 years occurred, such as Enron, Arthur Anderson, WorldCom, Cisco Systems, Lucent Tech, and others.

Nonetheless, neoliberalism is in the public interest so that free markets can ultimately provide the best economic and social conditions (Zhang & Andrew, 2014). In the context of the global economy, the formation of global markets requires a series of international rules and institutions that provide regulation in an international scope.

According to Harvey in Zhang & Andrew (2014), neoliberalism is the financialization of everything and the relocation of the center of power over capital accumulation to owners and financial institutions. Support for financial institutions and financial system integrity is a central focus in a neoliberal state.

Financialization means that corporate performance is equated with financial performance as reflected in financial performance, not cash flow or production activities (Lazonick & O'Sullivan, 2000). Global accounting regulations form an important part of the institution to keep financialization stable and normal. The development of international accounting standards is also based on the need to accommodate world capital markets.

In the context of using accounting as a tool for neoliberalism, the radical humanist paradigm can be used as a basis for understanding that agents of neoliberalism often provide arguments about the implementation of their programs based on accounting concepts that are designed according to neoliberalism principles. According to Burrell & Morgan in Suyudi (2012), the radical humanist paradigm focuses on human consciousness in the context of the totality that characterizes certain social formations.

For example, in the case of privatization in Indonesia, agents of neoliberalism always argue that the low profits of BUMNs (State-owned enterprises) are the main reason for the privatization of BUMNs. If criticized, the profit in question is profit as measured by neoliberal accounting which emphasizes economic

surplus for owners of capital (capitalists), rather than emphasizing added value for stakeholders.

The Role of Accounting Conceptual Framework in Neoliberalism

As explained in the previous section, the development of the conceptual framework has a significant impact on decision-makers. As explained by Zhang & Andrew (2014) that the 2010 framework places investors at the center of the reporting process. In contrast to the previous one, as defined by the IASB, the primary users of financial statements are potential investors, labor, lenders, suppliers, customers, government, and the public. This is in stark contrast to the FASB's definition that users of financial statements are investors and creditors. The 2010 Framework reflects the FASB's commitment to capital markets. In its explanation, the IASB states that it only includes investors, lenders, and other creditors as primary users because these parties are the parties who must need information in financial statements most.

The IASB and FASB are of the view that fair value accounting will be the basis for reporting in the future (Jordan et al., 2013). Fair value accounting used to depend on the market for measuring the value of assets and liabilities to be up-to-date. Measurement with fair value is very important to know as a competitor of historical cost (Palea, 2014). According to McSweeney (2009), the assumption underlying fair value is that prices derived from market transactions reflect an effective analysis of all the information needed to make an accurate judgment. Then the value of the company comes from its financial position, not from cash flows that come from productive transformations and market exchanges. So this 2010 framework implicitly raises the perception that markets must be free to be maintained through a conceptual framework.

The development of the qualitative characteristics of financial statements also lays the conceptual basis for fair value accounting to dominate the measurement approach in accounting practice. This fair value accounting reflects the need for the latest information in the market because the global economy depends on uncertain financial flows. So that financial statements can be used as a basis for speculation which is very convincing for investors.

In practice, this is the case, standard setters always regard shareholders as primary users of financial statements (Cooper & Sherer, 1984). These interests are of concern to the standard setters, but the narrowing of the definition of users of financial statements is a symbol of successful financialization in which the financial market acts as a proxy for the public interest. This is reflected in the belief that good investment decisions are based on good accounting practices (Zhang & Andrew, 2014). These concepts are institutionalized within a conceptual framework. Financial markets have long been at the center of the reporting process, but the 2010 framework emphasizes how neoliberalism is maintained in a post-global crisis world.

CONCLUSION

The conceptual framework developed by the IASB and FASB plays a role in the survival of neoliberalism and the financialization of the capital market. This conceptual framework will eventually be used in accounting practices that

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focus on investors in the capital market. In this way, investors become the center of interest in the process of financial reporting, and neoliberalism is maintained by global capital markets.

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