

FASB In Focus

FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 4, Elements of Financial Statements*

A Proposed Concepts Statement That Addresses Elements of Financial Statements

Overview

The Financial Accounting Standards Board ([FASB](#)) on July 16, 2020, issued for public comment a [proposed chapter](#) of the FASB's Conceptual Framework for Financial Reporting defining elements of financial statements. This chapter defines 10 elements of financial statements: assets, liabilities, equity (net assets), revenues, expenses, gains, losses, investments by owners, distributions to owners, and comprehensive income. This proposed chapter is intended to replace Concepts Statement 6, *Elements of Financial Statements*.

The objective of financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity. This chapter provides the means for carrying out that objective; it defines elements of financial statements to be applied in developing standards for both businesses and not-for-profit organizations. These elements provide a foundation for information that is relevant to the objective of financial reporting. When finalized, these elements will become a basis for the Board when creating requirements in future standards. Stakeholders are encouraged to review and provide comments on the proposed chapter by November 13, 2020.

Why Is the FASB (the Board) Issuing This Exposure Draft?

The Board concluded that the discussion of elements in Concepts Statement 6 could be further developed and improved with the objective of providing a foundation for future standards. Many of the decisions reflect changes in practices and standards since Concepts Statement 6 was issued and are based on the Board's experience in using those concepts in setting standards.

What Are the Main Components of the Proposal?

Definitions of elements of financial statements are a significant determinant of the content of financial statements. Possessing the essential characteristics of one of the elements is a necessary but not sufficient condition for an item to be recognized in an entity's financial statements. To be recognized in financial statements, an item must meet the fundamental recognition criteria as well as a cost-benefit constraint.

The decisions discussed in this Exposure Draft would principally clarify the elements definitions in Concepts Statement 6 by:

- a. Clearly identifying the right or obligation that gives rise to an asset or a liability
- b. Eliminating terminology that makes the definitions of

assets and liabilities difficult to understand and apply

- c. Clarifying the distinction between liabilities and equity and between revenues and gains and expenses and losses
- d. Modifying the distinctions in equity for not-for-profit entities.

How Would the Board Use the Chapter Once It Is Final?

This chapter of Concepts Statement 8 would be similar to the rest of the framework in that it establishes concepts that the Board would use in developing standards of financial accounting and reporting. This particular chapter would provide the Board with a framework for developing standards by identifying elements of financial statements that could be appropriate for recognition in the financial statements and relevant to the users of those financial statements. This chapter would provide the Board with a framework for developing standards that meet the objective of financial reporting to enhance the understandability of information to existing and potential investors, lenders, donors, and other resource providers of a reporting entity.

Paragraph 105-10-05-3 of the *FASB Accounting Standards Codification®* states that FASB Concepts Statements are not authoritative. Some standards are inconsistent with the Concepts Statements. This Concepts

Statement and other Concepts Statements do not override authoritative standards. If accounting for a transaction or event is not specified in authoritative generally accepted accounting principles (GAAP), an entity first must consider accounting principles for similar transactions or events within authoritative GAAP and then consider nonauthoritative guidance from other sources (including Concepts Statements).

What Are the Next Steps in the Process?

Stakeholders are encouraged to review and provide comment on the Exposure Draft by November 13, 2020. The proposal and instructions on how to provide comments are available at www.fasb.org.

For more information about the project, please visit the FASB's website at www.fasb.org.