

Présentation du sujet « Approche Bilan »/ « Approche compte de résultat »

A- Résumé du sujet

Lorsque, dans les années 70, le FASB a lancé le projet d'élaboration du cadre conceptuel des normes comptables américaines, il a été conclu que la primauté devait être accordée à la définition du terme « actifs ». Ainsi, tous les autres éléments des états financiers – dettes, capitaux propres, produits, charges - devaient découler de la définition des actifs, considérés par le FASB comme les seuls éléments pouvant être définis indépendamment des autres.

Une « Approche Bilan » (ou « Approche basée sur la situation financière ») est supposée résulter de ce choix initial. Toutefois, les commentaires ainsi que la littérature élaborés depuis ont notamment souligné les points suivants:

- A l'époque, le FASB n'a traité que les questions de définitions. Aussi, comme l'a d'ailleurs noté le FASB lui-même, le débat sur les aspects de comptabilisation et d'évaluation reste ouvert;
- Le FASB a indiqué que le fait de donner une priorité conceptuelle à la notion d'actif ne l'empêche pas de considérer le résultat net et le compte de résultat comme plus utiles aux utilisateurs des états financiers que les informations contenues dans le bilan;
- Certains auteurs¹ considèrent que la définition actuelle d'un actif est toujours étroitement liée à la notion de « produit », et que les deux définitions sont donc dépendantes l'une de l'autre;
- D'autres auteurs/ parties prenantes continuent de penser que la primauté doit être donnée à la comptabilisation et l'évaluation des composantes du résultat, élément le plus important pour les utilisateurs des états financiers;
- Il semble exister un accord général sur l'utilité pour les utilisateurs des états financiers d'avoir des informations sur la capacité des entités à générer des flux de trésorerie, ce qui pourrait être estimé aussi bien par une approche se focalisant sur les actifs que par une approche se focalisant sur les revenus.

¹ Par exemple Richard A. Samuelson, "the Concept of assets in accounting theory", AAA Accounting Horizons, vol.10 n°3, septembre 1996

Par conséquent, il n'est pas évident que le choix fait il y a 30 ans d'utiliser les définitions des actifs / passifs pour définir les autres éléments des états financiers entraîne nécessairement l'adoption de certains principes de comptabilisation et d'évaluation. En fait, le principal débat à mener est sur l'approche qui permettrait de donner aux utilisateurs des états financiers les informations les plus utiles et les plus pertinentes sur la capacité des entités à générer des flux de trésorerie futurs en définissant de manière appropriée le rythme de comptabilisation de ces flux. Certaines pistes identifiées sont:

- L'évaluation de cette capacité sur la base d'une approche d'analyse financière fondée sur la juste valeur (avec les prix du marché servant de référence) ;
- L'évaluation de cette capacité à partir d'une approche d'analyse de la performance en mettant l'accent sur la valeur ajoutée générée par l'activité (avec référence aux « business models »).

B- Développements (en langue anglaise)

Voir ci-après

1. The starting point: the present framework

It is generally accepted that IASB framework puts an emphasis on assets and liabilities. Such focus results in equity being defined as the residual interest in the assets of the entity after deducting all its liabilities and in income and expenses being defined by reference to assets and liabilities. Thus, the framework (§ 70) states that:

- Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
- Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

While the framework mentions the matching principle which implies that the recognition of income and the recognition of expenses are interlinked, it also prohibits the recognition of all related consequences Accordingly, the matching principle cannot result in recognising an item in the balance sheet that does not meet the definition of an asset or a liability.

In the meantime, the framework's position regarding performance is not straightforward as it mentions (§12) that the objective of financial statements is to provide information about the financial position, (and) performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.

One can deduce from such a statement that performance and changes in the financial position of an entity are two different items. This can also be understood from § 19 of the framework which stipulates that information about financial position is primarily provided in a balance sheet ; information about performance is primarily provided in an income statement and information about changes in financial position is provided in the financial statements by means of a separate statement.

Finally, the IASB admits (§ 52 of the framework) that standards may conflict with the present framework but seems to stick with the focus on the assets and liabilities definitions as they are seen as the adequate starting point for a future revision of existing standards.

We also note that the framework does not elaborate on the implications of the « asset and liability view » and « Income and expenses view » regarding the definition of elements of financial statements, the recognition principle and measurement.

2. Reminder of some historical views in a longstanding debate

The debate around the Asset/ Liability view vs. the Revenue/ Expense view occurred in the 1970s when the FASB launched the conceptual framework project². At that time the FASB referred to the Asset/ Liability view and the Revenue/ Expense view for the purpose of defining elements of the financial statements: should the definitions of assets and liabilities depend on the definitions of revenues and expenses or should it be the contrary? The objective was only at that time to find a set of definitions that worked.

² See *Accountants' Handbook, Chapter 2: The framework of financial accounting concepts and standards*, Reed K. Storey, 2007 edition, John Wiley and Sons for more details on the history of the US conceptual framework

The FASB issued a discussion memorandum in 1976³ where assets and liabilities are identified as “the most fundamental elements whose precise definitions control the definitions of the other elements” (page 35) and then used the definitions of assets/ liabilities in defining other elements. This conclusion, resulting from the need of defining elements of the financial statements is well described by Oscar Gellein, former member of the FASB:

*"Every conceptual structure builds on a concept that has primacy. That is simply another way of saying some elements must be given meaning before meaning can be attached to others. I contend that assets have that primacy; I have not been able to define income without using a term like asset, resource, source of benefits, and so on. In short, meaning can be given to assets without first defining income but the reverse is not true; That is what I mean by conceptual primacy of assets. No one has ever been successful in meaning to income without first giving meaning to assets."*⁴

Yet, for the US standard setter (and then the IASB and others like Australia, Canada, New Zealand and the UK), the choice for an Asset/ Liability view for grounding the definitions of the conceptual framework should not be interpreted as a primacy of balance sheet versus the income statement and a way to impose some kind of current value accounting.⁵

That is the reason why some recent debates, resulting from misunderstandings, gave the standards setters the impression of “déjà-vu”. For example, at the annual Financial Times financial reporting conference in the UK in September 1993: “whereas the ASB’s statements of principles makes the balance sheet the focal point of the accounts and treats financial reporting primarily as a process of valuation, E&Y believes that the primary focus should be on the measurement of earnings and that the balance sheet should be seen as a residual statement, derived after measuring the company’s profits and not the other way round.”⁶

In order to avoid any further misunderstanding, H. G. Bullen (FASB staff) and K. Crook (IASB Staff) recalled in a paper dated may 2005, when presenting the new common conceptual framework project that in “the 1976 discussion memorandum & Concepts Statements FASB says that all parties agree that the information on a statement of income is likely to be more useful to investors and creditors than the information in a statement of financial position” and “that the statement of financial position does not purport to show the value of a business enterprise”⁷.

³ *Conceptual Framework for financial accounting and reporting elements of financial statements and their measurement*, FASB, December 1976

⁴ *Primacy : Assets or Income*, Oscar S Gellein in *Research in accounting regulation*, 1992

⁵ “Thus, to say that the asset and liability view downgrades the significance of net income and the income statement by making the balance sheet more significant than the income statement at best reflects misunderstanding of the conceptual primacy of assets and liabilities and of the asset and liability view used by the Board. At worst it misrepresents the Board’s reasons for accepting the asset and liability view and rejecting the revenue and expense view of income. The idea that the Board chose the asset and liability view to impose some kind of current value accounting on an unwilling world reflects the same misunderstanding and misrepresentation” Reed K. Storey (senior technical advisor at the FASB), *Accountants’ Handbook*, 2007 edition, John Wiley and Sons p. 2-57

⁶ “*News-ASB underfire*”, *Accountancy*, November 1993, p. 16, according to *Accountants’ Handbook*, John Wiley and Sons p. 2- 58

⁷ *Revisiting the Concepts*, FASB/ IASB, May 2005

3. The outstanding debate: a matter of recognition and measurement

Whereas we acknowledge that a debate regarding definitions occurred in 1976 (discussion memorandum to be obtained), it seems that the debate around the basis of recognizing & measuring assets/ liabilities/ revenues/ expenses with the pros & cons is not closed.

3.1 – Matters for thoughts in the present standards and IASB projects

The non-achievement of such a debate has maybe given rise to some of the inconsistencies/ difficulties in the present standards and projects. In particular, requirements in several standards aim at achieving a “matching” principle between income and expenses. These requirements seem to depart from the general accounting principles described in the framework. They highlight the fact that an incomplete analysis of what is relevant to recognize and measure in the P&L prevents from having robust principle-based recognition principles in the P&L.

For example (not exhaustive):

IAS 39 – Financial instrument: recognition and measurement

Most of the requirements of the financial instrument standard are rather “asset and liability” driven. A major exception lies with hedge accounting which main objective is to reflect at the same time the impact of changes in value of the hedging instrument and of the hedged item in profit and loss so that gains and losses from each item offset each other.

This matching principle overrides the recognition of derivatives at fair value through profit and loss in the case of cash flow hedging and it overrides the main measurement principles of IAS 39 in the case of fair value hedge of items measured at cost or at fair value through other comprehensive income.

The matching principle was also in the mind of the IASB when the fair value option was permitted by IAS 39 particularly where the option reduces a measurement or recognition inconsistency (“accounting mismatch”). This option has been maintained in IFRS 9 as it “avoids problems arising from a mixed measurement model” and it “mitigates anomalies until other IASB projects are completed”.

This option demonstrates that measurement requirements for assets and liabilities may contradict some objectives related to recognition in the income statement and that exceptions have to be made so that the income statement reflects relevant and useful information.

IAS 19 – employee benefits

The corridor approach which is still permitted under the present standard does not allow a proper reflection of “real” assets and liabilities in the entity’s balance sheet. This is why the current project on post employment benefits rightly aims at eliminating this method. Constituents generally admitted the relevance of immediate recognition of all changes in the value of plan assets and in the employee benefit obligation in the period in which they occur.

The retention of the corridor approach in the present standard is due to the fact that the Board did not want to require immediate recognition of actuarial gains and losses until further discussion was held on direct recognition of items in equity, recycling and performance reporting.

The views expressed during the pension project illustrate the fact that even if one may agree on what should be on the face of the balance sheet, more discussion is needed regarding the income and expenses side.

Another remark is that matching income and expenses is also an objective of IAS 19 to the extent that a liability and expenses are recognised in the period in which services are rendered and therefore benefits from services are gained by the entity. The straight-line attribution of costs required in case of back-end loaded plans is not fully explained in the basis for conclusions but it is reasonable to think that it reflects in most cases the real expectation regarding services to be rendered by employees ie it corresponds to a kind of matching principle under which costs and benefits from services rendered by employees are recognised at the same time.

These observations imply that, while reflecting pension assets and liabilities is crucial, the consequences on the statement of income is still a matter of concern that sometimes may conflict with the balance sheet view.

IAS 20 – Accounting for government grants

This standard is designed in a manner to achieve a specific outcome in terms of income recognition ie matching the costs that the grants are intended to compensate for.

The side effects of IAS 20 requirements are that deferred income is recognised as a liability in contradiction with the definition of a liability in the framework. Another effect is that assets are understated (when the related government grant is recognised as a deduction to the asset) which raises the issue of what should be incorporated in the measurement of an asset carried at cost.

There again, the primacy of assets and liabilities conflicts with the income and expense view.

IAS 11 – Construction Contracts

This standard is driven by the “matching” principle to portray the activity of the entity. Hence, it states that “contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity”.

Then, IAS 11 shows that recognition requirement for elements of the financial statement should reflect the performance of the entity and should not only be driven by an “asset/liability” view.

IAS 18 - Revenue recognition project

This new standard aims at replacing the existing standards on revenue recognition, IAS 11 Construction Contracts and IAS 18 Revenue.

The IASB discussion paper proposes a revenue recognition model based on the fact that a contract gives rise to rights and obligations that materialise in a net contract position (an asset or a liability). Revenue is recognised when performance obligations are satisfied ie only when the promised good or service is transferred to the customer. Many respondents were concerned that revenue recognition would be triggered by the customer’s control of the good

or service since such a model does not allow, in some cases, a proper approach to portray the real activity of the entity (for example construction contracts).

These concerns illustrate the fact that a “pure” asset and liability approach can challenge the objective of the statement of income as it is envisaged by some respondents.

3.2- The debate focus over measurement

The lack of an organized debate over measurement has entailed controversial discussions around measurement and some different views are arisen.

For example (not exhaustive):

Measurement based on a “financial analysis approach”

Some claim that measurement of the financial statements items should be based on a financial analysis approach with focus on the assets/ liabilities values with reference to market prices as a benchmark. Main arguments relating to this model are well summarized by Mary Barth (former IASB member and current Academic advisor to the IASB) in a 2006 paper⁸:

- Financial statements should reflect expectation of future cash flows.
- There should be a single attribute for measuring the assets/ liabilities. Using many attributes (historical cost, Fair Value, entity specific value) generates financial statements that are internally inconsistent and create difficulties for users. Moreover, this also means that similar economic events could receive a quite different accounting treatment which also creates difficulties for users to understand financial statements.
- Fair value is the best attribute as it meets many of the framework’s qualitative characteristics: relevance (efficient markets reflect present value), comparability (the value of an asset is the same for every entity), consistency (the same type of information is provided every year) and timeliness (fair value reflects changes in economic conditions when those conditions occur).
- Income represents how the entity performed given the assets at its disposal relative to other market participants’ expected performance. Thus, if the entity makes better use of the assets, income will be positive. If it makes worse use of them, income will be negative.

An alternative model based on the assessment of performance through business activities (business model)

Others claim that measurement of the financial statements items should be based on a performance analysis approach with focus on the income/ expenses generated by a business activity. This model, partly developed in Bezold’s and Dichev’s recent papers⁹, can be summarized as follows:

- Financial statements should reflect expectation of future cash flows.

⁸ Including estimates of the future in today’s financial statements, M. Barth, August 2006

⁹ The subject matter of financial reporting : the conflict between cash conversion and Fair value in the measurement of the income, Bezold, 2009 and On the balance-sheet model of financial reporting, Ilia D. Dichev, September 2007

- The measurement of assets/ liabilities should depend on the business model applied by each entity as expectations of future cash flows depend on the business model applied.
- There should be different measurement attributes depending on how the entity operates (fair value, amortized cost, historical cost).
- Income should represent the business performance and should not depend on market fluctuations that do not have any effect on the firm's value-creation.

This approach has been recently recognized by the IASB in its process regarding the elaboration of IFRS 9: “The business model test is applied first in determining whether a financial asset is eligible for amortised cost measurement. The Board also rearticulated the business model objective of holding financial assets in order to collect contractual cash flows rather than realising cash flows from the sale of the financial assets.”¹⁰

When reading papers, most of the authors seem to agree that the objective of the financial statements is to assess the entity's cash flows prospects. Nevertheless, the fact that these authors do not agree on which measurement model is the more useful and relevant way to achieve this objective shows that the debate is still open.

For example:

- *“The objectives focus on information about an entity's economic resources, the claims to those resources, and changes in them (including measures of the entity's performance). That information is useful in assessing the entity's cash flow prospects.”¹¹*
- *“However predictability of income itself is not an objective of financial reporting. Rather, it is income's predictive ability for future cash flows that is important”¹²*
- *“Given the indirect relationship between future cash flows and particular indirect realization assets, as well as a reduced reliance on the statement of financial position (emphasis added) for interpreting that relationship, current measures are generally not as relevant for indirect realization assets as they are for direct realization items”¹³.*

4. Conclusion

We acknowledge that the debate on the primacy of assets and liabilities occurred some years ago when it came to define the FASB or IASB frameworks. Nevertheless, it seems that this debate focused mainly on the definition issue, without dealing with the recognition & measurement matters.

As a matter of fact, IASB/ FASB already recognized in the 2005 staff paper, the importance of the debate over recognition and measurement: “The long-standing unresolved controversy about which measurement attribute to adopt [...] and the unresolved puzzle of unit” -

¹⁰ *Summary of significant final decisions post ED, IFRS 9 Phase 1 – Classification and measurement, IASB, November 2009*

¹¹ *Understanding the conceptual framework, L. Todd Johnson, The FASB Report, December 28, 2004*

¹² *Including estimates of the future in today's financial statements, M. Barth, August 2006*

¹³ IASB staff paper, June 2009, conceptual framework, sample measurement chapter presented during the meeting of NSS

“whether items should be grouped at some level of aggregation, or disaggregated, rather than being measured individually” – “are likely to make measurement one of the most challenging parts of this project”¹⁴.

As a conclusion, we may state that in order to have a consistent and relevant set of accounting rules, it is essential that the debate around recognition and measurement occurs and that it occurs at the framework improvement stage.

In order for that debate to be constructive, we should insure that:

- the debate around definition, recognition and measurement of the elements of the financial statements does not occur on a piecemeal approach.
- an appropriate, organized and complete debate on the different recognition and measurement views to assess the capacity of entities to generate cash flows does take place.

¹⁴ *Revisiting the Concepts*, FASB/ IASB, May 2005