

## Assessment of Final Year Accountancy Students' Knowledge of the Elements of Financial Statements

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### Abstract

The aim of the study was to assess the knowledge of final year accountancy students on the elements of financial statements as contained in the Conceptual Framework for Financial Reporting. The study was exploratory in nature. It involved final year students on the accountancy programmes at colleges and universities in Malawi. The students were required to list the elements of financial statements. The results indicate that the majority of the students were not aware of the elements despite the fact that the financial reporting syllabi for the programmes incorporate the Conceptual Framework for Financial Reporting. It is recommended that financial reporting lecturers at the colleges and universities should adopt the principles based approach to teaching International Financial Reporting Standards. The accountancy students should also be encouraged to consider the Conceptual Framework for Financial Reporting as a foundation for their accounting studies and so endeavour to know its tenets.

**Keywords:** Conceptual Framework, Elements, Financial reporting, Students, Knowledge.

### Introduction

The Conceptual Framework for Financial Reporting plays an important role in corporate financial reporting. It documents the agreed upon concepts which underlie International Financial Reporting Standards (IFRS) (Coetzee and Schmulian, 2011). In this case the International Accounting Standards Board (IASB), a body responsible for setting IFRS fosters consistency in financial reporting. The expectation is that the IFRS as a single set of reporting standards, will be adopted and applied worldwide. Coetzee and Schmulian (2011) note that the Conceptual Framework for Financial Reporting might also enable preparers of financial statements to account for economic events for which there are no reporting standards. The Conceptual Framework will then form a basis for the formulation of relevant accounting policies to inform the accounting treatment of the identified economic events.

Given the inherent importance of the Conceptual Framework for Financial Reporting in corporate financial reporting, it is imperative that preparers of financial statements and accountancy students should have knowledge of the Conceptual Framework. The curricula of the Accountancy degree programme of various colleges and universities in Malawi have incorporated the International Financial Reporting Standards (IFRS) (Chimtenge *et al.*, 2017). Generally, students are taught the Conceptual Framework for Financial Reporting in year three of their studies. The Conceptual Framework is intended to serve as an introduction to the detailed study of IFRS. Therefore, accountancy students are expected to be familiar with all the concepts in the Conceptual Framework for Financial Reporting.

The scope of the Conceptual Framework for Financial Reporting covers the objective of financial reporting; the qualitative characteristics of useful financial information; the reporting entity; the definition, recognition and measurement of the elements of the financial statements and the concepts of capital and capital maintenance. However, this study focused on the elements of the financial statements. Specifically the study was aimed at assessing the knowledge of final year accountancy students on the elements of financial statements.

## **Literature Review**

### **The Conceptual Framework for Financial Reporting**

Miller and Reading (1986) as cited in Solomon and Solomon (2005) defined a conceptual framework as a collection of broad rules, guidelines, accepted truths, and other basic ideas about the field. Solomon and Solomon (2005) noted that conceptual frameworks are intended to perform any function from simply helping to define a discipline to developing a fully comprehensive, analytical framework for the discipline. The concept of the conceptual framework applies to all disciplines and corporate financial reporting is no exception.

In the arena of financial reporting, the IASB developed the Conceptual Framework for Financial Reporting. The Conceptual Framework for Financial Reporting is very important in corporate financial reporting. The framework sets out the concepts that underlie the preparation and presentation of financial statements. The primary purpose of the Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs (IASB, 2013). The Conceptual Framework might be regarded as a foundation or a constitution for financial reporting standards (Gore and Zimmerman, 2007; Coetzee and Schmulian, 2011).

### **Use of the Conceptual Framework for Financial Reporting in Pedagogic and Pedagogues Approaches**

Apart from aiding the IASB in the development of IFRSs, the Conceptual Framework can also be used for pedagogic purposes (Fawcett, 1997). Solomon and Solomon (2005) observe that the broader conceptual framework can be used as an introduction to a discipline, or subjects within a discipline. In the case of corporate

financial reporting, the Conceptual Framework serves as an introduction to IFRS. Therefore it makes sense for students to be taught the Conceptual Framework before they cover the IFRSs. A special feature of the Conceptual Framework is that it is not updated frequently (Janse van Rensburg, Coetzee and Schmulian, 2014; Barth, 2008) unlike IFRS. As a result, the Conceptual Framework provides a good foundation for IFRS lessons.

The Conceptual Framework for Financial Reporting and IFRS are interlinked. The implication of this linkage is that the pedagogical approach adopted when teaching students IFRSs has a bearing on how students understand the Conceptual Framework. Coetzee and Schmulian (2011) underscore the need to attach great importance to the teaching of the Conceptual Framework for Financial Reporting. This calls for the application of an appropriate pedagogical approach. It follows that a good pedagogical approach should be employed to ensure that a good foundation is laid for financial reporting through the Conceptual Framework for Financial Reporting.

There are two approaches to teaching IFRS which may be applied: the traditional and the principles-based approaches (Coetzee and Schmulian, 2011; Persons, 2014). Under the traditional approach, the emphasis is placed on imparting knowledge of the concepts to the students (Coetzee and Schmulian, 2011). In essence the approach address the “what” question. Coetzee and Schmulian (2011) further observe that the role of the students is just to absorb the knowledge being imparted. The students are not taught how to make informed judgements using the knowledge they have acquired. In essence, the traditional approach does not afford students an opportunity to apply judgment. Consequently, this approach has been criticised as not being appropriate and is contrary to the current developments in IFRS education (Barth, 2008; Coetzee and Schmulian, 2011). Persons (2014) further bemoans that the traditional method does not explain the underlying principles used by the IASB or the Financial Accounting Standards Board (FASB) to promote IFRSs or U.S. GAAP respectively.

Unlike the traditional approach, the principles-based approach goes beyond the imparting of knowledge. The approach focuses on the “why” question by using the IASB Conceptual Framework (IASB, 2010) in this way therefore, the students are no longer spectators. They take an active role for their learning as they work through the relevant frameworks (Coetzee and Schmulian, 2011). Patro and Gupta (2012) note that the principles-based pedagogical approach ensures that students develop their ability to apply judgment. The use of the Principles-based approach to teaching IFRS has been greatly recommended (Persons (2014; Patro and Gupta, 2012) to overcome the shortfalls of the traditional approach.

## **Methodology**

The study was exploratory in nature. The study involved two tertiary institutions offering accountancy programmes. For the sake of this study, the institutions have been named A and B. Institution A is a public university while Institution B is a public college. All respondents were final year students on the accountancy degree

programmes offered by the two institutions. Ninety-seven students participated in the study. The distribution of students per institution has been shown in Table 1. The students were asked to list the elements of financial statements as contained in the Conceptual Framework for Financial Reporting.

*Table 1- Distribution of Students*

	<b>Institution</b>	<b>Number of Respondents</b>
1	A	67
2	B	30
	<b>Total</b>	<b>97</b>

## Findings

### Items Listed by the Students

The students were requested to list the elements of the financial statements. The items mentioned by the students have been presented in Table 2. The results indicate that the students from institution A mentioned 22 items while the students from institution B mentioned 17 items. Overall, the students from the two institutions mentioned a total of 15 common items. Seven items were unique to institution A while respondents from Institution B only mentioned 2 unique items. The items mentioned included the elements of financial statements, description of accounting standards, specific examples of assets and liabilities, qualitative characteristics of useful accounting information and the components of the financial statements.

*Table 2- Number of Items Mentioned by the Students*

<b>No</b>	<b>Item</b>	<b>Institution A</b>	<b>Institution B</b>
1	Assets	✓	✓
2	Liabilities	✓	✓
3	Equity	✓	✓
4	Income	✓	✓
5	Expenses	✓	✓
6	Profit	✓	✓
7	Capital	✓	✓
8	Bank / Cash	✓	
9	Revenue	✓	✓
10	Investments	✓	✓
11	Gain	✓	✓
12	Losses	✓	
13	Cost of sales	✓	
14	Tax	✓	
15	Income statement		✓

16	Statement of comprehensive income	✓	✓
17	Statement of financial position	✓	✓
18	Statement of cash flows	✓	✓
19	Statement of changes in equity	✓	✓
20	Notes to the financial statements	✓	✓
21	Statement of Financial Performance		✓
22	Sales	✓	
23	Clarity	✓	
24	Comparability	✓	
	<b>Total number of items mentioned</b>	<b>22</b>	<b>17</b>

The aim of the study was to assess the final year accountancy students' knowledge of the elements of financial statements as contained in the Conceptual Framework for Financial Reporting. To this end, the items of interest were assets, liabilities, equity, income and expenses as these are the elements of the financial statements. The number of times that the students mentioned these elements is shown in Table 3.

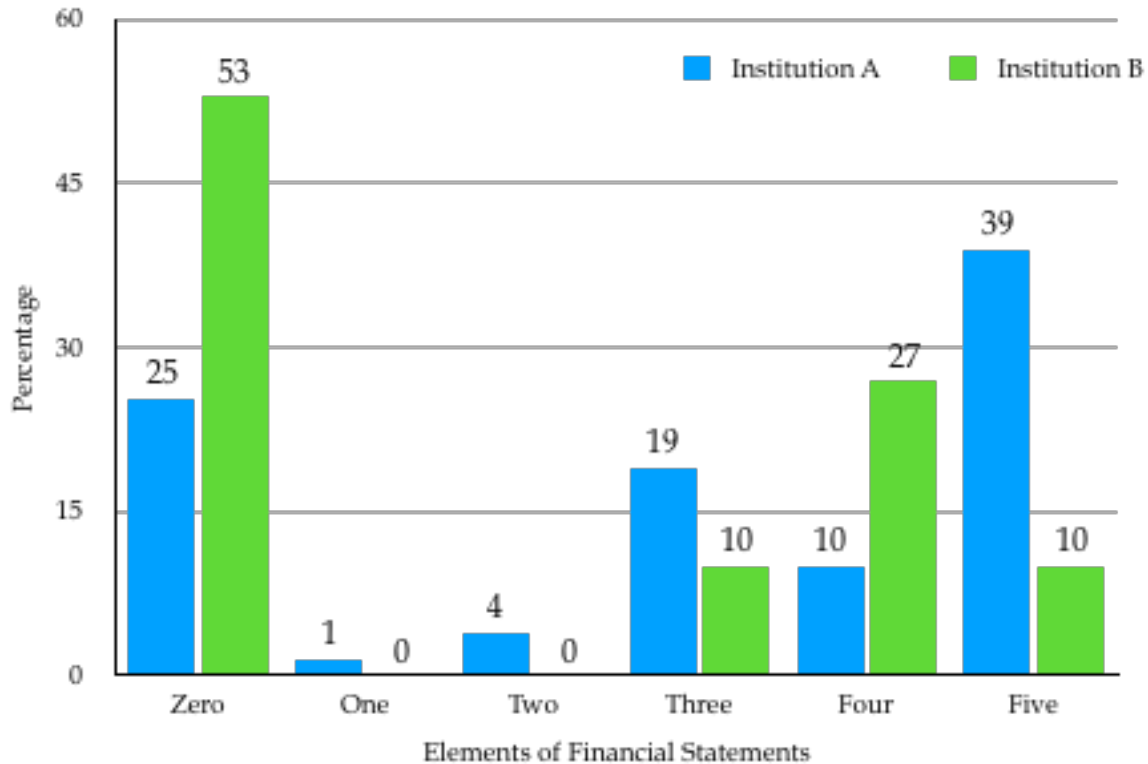
*Table 3- Frequencies of the Elements of Financial Statements Mentioned by the Students*

No	Element	Institution A		Institution B		Overall %
		Frequency	%	Frequency	%	
1	Assets	48	72	14	47	64
2	Liabilities	48	72	14	47	64
3	Equity	40	60	13	43	55
4	Income	28	42	4	13	33
5	Expenses	39	58	11	37	52

The results indicate that 72 percent of the respondents from institution A managed to mention assets and liabilities as elements while sixty percent mentioned equity as an element. Forty two percent and 58 percent of the respondents mentioned income and expenses respectively. On a different note, 47 percent from Institution B indicated assets and liabilities as the elements of the financial statements. Forty three percent of the respondents listed equity as one of the elements. Finally, 13 percent and 37 percent of the students from Institution B indicated income and expenses as forming part of the elements of the financial statements. In terms of the overall picture, almost half of the respondents from the two institutions managed to list assets, liabilities, equity and expenses as elements of the financial statements. It is only 33 percent of the respondents from the two institutions who indicated income as one of the elements.

### **Students Performance**

The students' performance in terms of how they listed the elements of the financial statements as set has been shown in Figure 1.



*Figure 1 - Students' Performance on the Conceptual Framework*

The figure shows that it is only 39 percent of the respondents from Institution A and 10 percent from Institution B who managed to list all the five elements of the financial statements. Twenty seven percent of the respondents from Institution B and 10 percent from Institution A listed four elements. Nineteen percent and 10 percent of the respondents from Institutions A and B mentioned three elements out of the required five elements. The results also indicate that the majority of the respondents from Institution B did not list even a single element while 25 percent of the students from the public university failed to list a single element.

### **Discussion**

There are five elements of financial statements as per the Conceptual Framework for Financial Reporting. The elements are assets, liabilities, equity, income and expenses. The students were expected to list the five items. This task should have been a simple one to the students. However, the majority of the students listed other items that are not elements of financial statements. The students listed description of accounting standards, specific examples of assets and liabilities, qualitative characteristics of useful accounting information and the components of the financial statements as elements of the financial statements.

The results indicate that the majority of the students are not familiar with the elements of the financial statements. This lack of knowledge on the elements is reflected in the smaller number of the students who listed the five elements. It is only 49 percent of the students who listed the correct number of the elements of financial statements. The results also show that Institution A had the highest number

of students who managed to mention five of the elements of the financial statements while Institution B had the highest number of students who mentioned 4 elements. Generally, students from Institution A performed better than their counterparts from Institution B. The better performance of students from Institution A could be due to the fact that this institution is well established as it has been offering academic accountancy programmes for over 40 years. Institution B has just started offering academic accountancy programmes. Other than this observation, the Financial Reporting module or its equivalent module on the Accountancy programme for the two institutions has a topic on the Conceptual Framework for Financial Reporting as proved by Chimtengo *et al.*, (2017) in their study of the IFRS content of the Accountancy Degree Syllabi of colleges and universities in Malawi. Chimtengo *et al.*, (2017) further noted that these modules are generally offered in year three of the accountancy programmes at the universities and colleges. In fact, the students on the accountancy programme study the Conceptual Framework before they cover the actual IFRSs. The spirit behind this approach was that the students should appreciate the tenets of the Conceptual Framework before they start covering the IFRS. This approach is in line with Barth (2008) who indicated that students would be able to apply judgment when accounting for economic events once they have grasped the foundational concepts contained within a Conceptual Framework.

These findings agree with the finding of a study of Akhter (2013). Akhter conducted a study on students' awareness of International Financial Reporting Standards (IFRS) in India in 2013. He noted that it was only a small number of students who were familiar with the contents of the IFRSs. Patro and Gupta (2012) also observed the lack of awareness of IFRS among Indian management students. Other studies that have been conducted on the awareness of IFRS and related areas (Baba, 2013; Kulkarni and Hyderabad, 2014; Dhankar and Gupta, 2014; Moser, 2014; Balsari and Varan, 2014; Chimtengo, 2017) also show that the level of awareness is generally low among practicing accountants and other IFRS stakeholders.

One of the possible reasons for the students' poor knowledge of the elements of financial statements could be that the students had learnt the Conceptual Framework in the third year of their studies and so they could not explicitly remember the concepts in the Framework in the final year of their studies. As such they now needed to focus on the actual IFRS. This reasoning is flawed because the Conceptual Framework is at the centre of IFRS and as accountants-in-training, the students should be aware of the same at all times.

The other possible reason could be the pedagogy employed when teaching the Conceptual Framework. It could be possible that the lecturers at the two institutions were adopting the traditional approach to teaching the Conceptual Framework. The traditional approach does not address the relationship between the Conceptual Framework and IFRS as hinted by Barth (2008) and Coetzee and Schmulian (2011). Janse van Rensburg *et al.*, (2014) assessed the ability of financial reporting students at a South African University to comprehend the IASB Conceptual Framework using the Cloze method. The results of their study indicated that the majority of the students were at Independent or Instructional level and that fewer students were at

the Frustration level. It can be construed that the students' ability to comprehend the Conceptual Framework coupled with the right pedagogical approach might enable the students to have a positive attitude towards the Conceptual Framework.

Beyond the first accounting degree, most of the students register with professional accountancy bodies with the aim of becoming qualified accountants. The students would be required to make use of the elements of financial statements and the other concepts within Conceptual Framework of Financial Reporting generally in the course of undertaking these exams. Accounting students are expected to be conversant with IFRS, as these will form a foundation of their working life. Wong and Wong (2013) noted that knowledge of IFRS makes students understand better the financial information and the implications of any changes in the standards. It is evident that the Conceptual Framework for Financial Reporting should be a companion for accounting students. This companionship should even exist beyond the successful completion of professional examinations.

### **Conclusion and Recommendations**

The objective of the study was to assess the knowledge of final year accountancy students on the elements of financial statements. The findings indicate the majority of the students are not familiar with the elements of financial statements that are just an aspect of the broader Conceptual Framework for Financial Reporting (2010). It is recommended that financial reporting lecturers at the two institutions should ensure that they are applying the Principles- based approach to teaching IFRS as advocated by Coetzee and Schmulian (2011) and Barth (2008). The accountancy students should be encouraged to consider the Conceptual Framework for Financial Reporting (2010) as a foundation for their accounting studies.

This study has focused on year four accountancy students at only two institutions offering accountancy degree programmes in Malawi. Future studies can consider students from a larger number of accountancy colleges and universities in Malawi. Again, the study concentrated on the elements of financial statements. Studies that can assess the knowledge of the students on all aspects of the Conceptual Framework for Financial Reporting would be valuable.

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