"A lack of a conceptual framework is a handicap to those involved in setting standards as well as to those applying them. ... We believe that work in this area will assist standard-setters in formulating their thinking on particular accounting issues, facilitate judgments on the sufficiency of the disclosures required to give a true and fair view, and assist preparers and auditors in interpreting accounting standards and in resolving accounting issues not dealt with by specific standards."

Report of the Review Committee under the Chairmanship of Sir Ron Dearing CB, published in September 1988

By tradition, company law has provided a general framework of rules. In the mid-nineteenth century an Act of Parliament made possible the separation of management from ownership. According to this separation came the need for directors to provide the company's published accounts to shareholders in order to show the performance and financial position of the company. In those published accounts it was required to determine what should be included in those accounts and how they should be prepared.

At that particular moment in time law did not give emphasis, and allowed the specification and the contents of those accounts to be determined by contract between the shareholders and directors or even allowed the flexibility for directors in deciding what information was relevant in any particular circumstances. During the period of 1844-1856 the law initially came into touch with the regulation of accounting disclosure and then early in this century became permanently involved in regulating company accounts. The Companies Act of 1929 increased the amount of information which companies had to disclose, and a major Act was made in 1948 where there was a change in attitude. They focused on investors as well as owners, and the directors were required to prepare accounts which showed a true and fair view and which contained information specified by the various Companies Acts. If the accounts did not show such an impression then additional information must be provided as a note in the accounts explaining the reason and the effects of this change. If this information still does not result in true and fair view or if they do not comply with other statutory rules, accounts must be changed. Therefore some basic accounting principles have now been incorporated into the law to help accountants in applying the rules posed by the Companies Acts. Those accounts according to the law should be prepared in accordance with accounting principles consisting of: Going concern, consistency, prudence, accruals and the separate determination of each asset and liability.

From 1945-1969 the ICAEW produced a series of *Recommendations of Accounting Principles* in order to help their members to choose their appropriate accounting policies. Those recommendations were not mandatory and often permitted a choice from various methods of accounting for a particular set of transactions. This allowed flexibility to the accountants and it was difficult for anyone to prove that mistakes had been made. Therefore these recommendations suffered from a number of deficiencies.

A number of scandals and strong criticism of the accounting profession indicated the need for change of this system. Concussive examples who have led the most criticism were those of GEC/AEI and Pergamon/Leasco affairs who anticipated profit in their final accounts but actually this situation was due to judgment regarding accounting principles and bases.

According to the need of standardization and the problem of superfluous flexibility in the choice of accounting policies, ICAEW issued the “Statement of Intent on Accounting Standards in the 1970’s” where they set out their strategy for the development of standards.

As a result, the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland and the Institute of Chartered Accountants in Ireland set up the Accounting Standard Steering Committee. In 1971 the Chartered Association of Certified Accountants and the Chartered Institute of Management Accountants joined the committee as well as the Chartered Institute of Public Finance and Accountancy in 1976. From the 1st of February 1976 the Committee became the Accounting Standard Committee (ASC) and was reconstituted as a joint committee of the six accountancy bodies performing now through the Consultative Committee of Accountancy Bodies (CCAB).

The objectives of the ASC were the continuation of the ‘Statement of Intent on Accounting Standards in 1970’s created by the ICAEW. Therefore ASC give emphasis in ‘defining accounting concepts, to narrow the difference of financial accounting and reporting treatment and to codify generally accepted best practice in the public interest’.

In 1981 and 1983 some reports known as the Watts Report and McKinnon Report respectively introduced a number of recommendations in a report to the CCAB. Those two papers by Watts ‘*Setting accounting standards’*: a consultative document and *Review of the standard setting process* by McKinnon recommended some fundamental issues that remain unresolved. With effect of those two reports the CCAB introduced the publication of two statements, the Statement of Intend (SOI) and the Statement of Recommended Accounting Practice (SORP)

Despite of the changes made by the CCAB, the ASC came under increasing criticism in the 1980’s due to its lack of powers of enforcement. In addition the ASC also faced a lot of difficulties in developing standard practice for controversial areas. Due to this decline of the ASC, a further report from Ronald Dearing suggested many recommendations in addition with Watt’s and McKinnon’s reports, which enabled the ASC to develop into the ASB which is still commonly known today. The standards are now set by the Accounting Standards Board which has the power to issue in its own right with addition of the Financial Reporting Review Panel which examined contentious departures from accounting standards by companies.

As we have seen through the various attempts of accounting standard setting bodies we can say that the ASB create a conceptual framework much more improved in order to guide their standard settings activities .But as William Baxter state ‘…is still has a long way to go’

Accounting concepts and methods are crusially implicated in this process of intersubjective construction, because there is no objective external realist criterion of ‘representational faithfulness is available for evaluating an accounting method. A standard setting body needs some set of criteria to help it achieve a degree of consistency in its use of accounting concepts.

Another misgiving about the ASB’s approach to developing a conceptual framework arises from the title of Chapter 1 of exposure draft, ‘the objective of financial statements’. As Dopuch and Sunder (1980) and Gaa (1988) have pointed out ‘the concept of an objective is unclear when applied to an activity (i.e. financial reporting) rather than to individuals. People have goals and objectives motivating them to perform their activities; but the activities themselves do not have goals or objectives’. A similar comment could be made concerning the attribution of objectives financial statements. However the purpose of an activity or an artefact reflects the objectives of its designer in designing it for a specific purpose. In that sense a set of financial statements and notes (a ‘financial reporting package’) could have a purpose; this will reflect the objective of the package’s designers. But this raises the question of how conceptual framework could serve in guiding the design of such a ‘package’ and its components.

From my point of view it is questionable whether the ASB’s conceptual framework be will successful in meeting its objectives. It may take more time and effort but if the ASB wish to use a conceptual framework as a basis for developing accounting standards, then it is essential that the conceptual framework is itself soundly based . At the present, these accounting bodies are in danger of building a house of accounting standards on shaky foundation