Qualitative Characteristics

LO 2.3 The following is a list of qualitative characteristics of useful accounting information identified in the FASB’s and the IASB’s Statement of Financial Accounting Concepts No. 8 and statements describing the qualities.

A.Comparability

B.Decision usefulness

C.Relevance

D.Faithful representation

E.Predictive value

F.Confirmatory value

G.Verifiability

H.Neutrality

I.Free from error

J.Consistency

K.Materiality

L.Timeliness

M.Understandability

N.Completeness

1. Different knowledgeable and independent observers can reach consensus that a particular representation is faithful.

2. Making information available to decision makers before it loses its capacity to influence decisions.

3. Capacity to make a difference in a decision, enabling users to predict future outcomes and/or confirm prior expectations.

4. Overall objective of financial information.

5. Absence of bias intended to influence financial statement users’ behavior in a particular direction.

6. Presented as accurately as possible, using a process that reflects the best available inputs.

7. Helps decision makers form expectations about the future.

8. Full disclosure of all the information necessary to understand the information being reported.

9. Enables users to identify and explain similarities and differences between two or more sets of economic facts.

10. The nature and magnitude of an omission or misstatement that would influence the judgment of reasonable users of that information.

11. Accounting methods and procedures applied in the same manner from period to period.

12. Helps decision makers confirm or correct prior predictions or expectations.

13. When the words and amounts accurately depict the economic substance of what they purport to depict.

14. Comprehensible to users.

Required:

Place the appropriate letter identifying each quality on the line in front of the statement describing the quality.

* The following is a list of accounting assumptions that have had an important impact on the development of generally accepted accounting principles and statements describing certain accounting practices.
	1. Reporting entity
	2. Going concern
	3. Period of time
	4. Historical cost
	5. Monetary unit
	6. Recognition
	7. Accrual accounting
	8. Revenue recognition
	9. Expense recognition
	10. Conservatism
	11. To provide timely information, companies prepare and report financial statements at the end of each year.
	12. Appropriate recognition when a company consumes economic resources in conducting business operations.
	13. Accounting measurements for U.S. companies are reported in dollars.
	14. The financial statements represent the business, rather than its owners.
	15. In the absence of evidence to the contrary, the business can be reasonably expected to operate long enough to carry out its existing commitments.
	16. Appropriate recognition when a company creates economic benefits (inflows of assets or settlements of obligations) by providing goods or services to customers.
	17. Transactions and events are recognized initially at the exchange price to provide relevant and reliable Information.
	18. An accounting alternative is selected that is least likely to overstate assets and income.
	19. The process of formally recording and reporting an item in the financial statements of a company.
	20. The process of measuring and reporting the economic effects of transactions, events, and circumstances in the appropriate period when those effects occur, even though the cash consequences may occur in a different period.

**Required:**

Select the accounting assumption that justifies each accounting practice and place the appropriate letter on the line preceding the statement.

Case 2-1

Case 2-2