ACCA F3

Qualitative Characteristic of financial information

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IASB Conceptual Framework

Conceptual Framework:
a set of principles which underpin the foundations of financial accounting

The Conceptual framework is currently as follows:
Chapter 1: The objective of general purpose financial reporting
Chapter 2: The reporting entity (to be issued)
Chapter 3: Qualitative characteristics of useful financial information
Chapter 4: Remaining text of the 1989 Framework:

- Underlying assumption
- The elements of financial statements
- Recognition of the elements of financial statements
- Measurement of the elements of financial statements
- Concepts of capital and capital maintenance

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Underlying Assumption

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- Going concern

The entity will continue in operation for the foreseeable future

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the assets should not be values at their 'break-up' value

- Accruals basis

The effects of transactions and other events are recognized when they occur (and not as cash is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

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The qualitative characteristics of financial information

qualitative characteristics (in Conceptual framework)

information provided in financial statements useful to users.

The two fundamental qualitative characteristics:

relevance and faithful representation.

Enhancing qualitative characteristics:

comparability, verifiability, timeliness, understandability

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The qualitative characteristics-Fundamentals

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Relevance: information is capable of making a difference in the decisions made by users

(Materiality. Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity.)

Faithful representation: To be useful, financial information must not only relevant but must faithfully represent the phenomena that it purports to represent.

To be a faithful representation information must be complete (all information necessary for understanding), neutral(without bias in the selection or presentation) and free from error(no errors or omissions).

Substance over form

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The qualitative characteristics-enhancing

Comparability

(Consistency)

Verifiability: different knowledgeable and independent observers could reach consensus.

Timeliness

(balance between timeliness and reliable)

Understandability: Understand by user with reasonable knowledge of business and economic activities.

Other accounting concepts

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Fair presentation: Compliance with IFRSs will almost always achieve this

Consistency: presentation and classification of items in the FS should stay the same from one period to the next, unless

(a) There is a significant change in the nature of the operations or a review of the financial statements indicates a more appropriate presentation.

(b) A change in presentation is required by an IFRS.

Business Entity:

always to treat a business as a separate entity from its owner; the transactions of the owner should never be mixed with the business's transactions.

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Conclusion

- Underlying Assumptions
- The qualitative characteristics of financial information
- Other accounting concepts

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