

Qualities for financial statements.

We know external stakeholders use financial statements to make decisions. These are usually resource allocation decisions so it involves money. Financial info must have some qualitative characteristics such as:

Faithful - truthful, complete, free of error, and neutral (unbiased)

Relevant - applicable to your decision making, helps predict future or confirm decisions made in the past.

Comparable - compare same business yearly or to another business

Verifiable - anyone looking at the info would determine similar amounts

timely - info provided quickly (new info)

Understandable - group and present info so its clear and concise

If info does not have these qualities, it may mislead the stakeholders causing them to make wrong decisions.

Ex. Jim, a car salesman is selling you a used car. He's given you the info about the car but you hear his sales have been slow.
- He might be violating the faithful quality. He is trying to make a sale so he may have skewed the data

How can we use qualitative characteristics to produce useful info?
Sometimes it is difficult to apply these characteristics so we need to develop assumptions that specify how accountants must record, measure and report info.

Separate Entity - only business activities are recorded

Unit-of-Measure - Transactions must be recorded in the monetary unit of where the business is located.

Going Concern - Businesses will continue operations in the future

Historic Cost - Purchases recorded at amount paid for them

Time Period - Info is provided quickly

Full Disclosure - If something affects the decision, it must be reported.