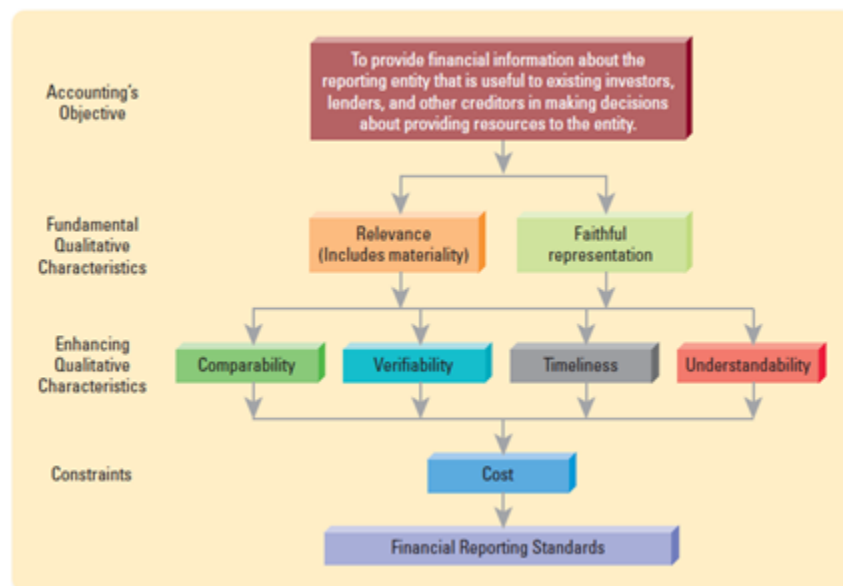


CONCEPT: USEFUL INFORMATION

- For information to be useful to the user, it must have these two _____ qualitative characteristics:
 - **Relevance** – the information makes a difference in the user's _____
 - *Predictive Value* enables users to _____ future outcomes
 - *Confirmatory Value* enables users to _____ previous predictions
 - **Faithful Representation** – the information is _____
 - *Completeness* means the company is providing _____ relevant information to users
 - *Neutrality* means that the information is _____
 - *Freedom from material error* means that there are no _____ errors in the information
- The _____ establishes their accounting standards based on its **conceptual framework**.



- Useful information should also have the following four _____ characteristics:
 - **Comparability** – information is _____ across companies and _____ with prior periods
 - **Verifiability** – information can be _____ for accuracy, completeness, and reliability → _____
 - **Timeliness** – information is _____ in time to make meaningful decisions
 - **Understandability** – the language is _____

● There are also four underlying _____ in financial accounting:

□ **Monetary Unit** – the currency of the accounting information is expected to stay _____

□ **Economic Entity** – the company can be separately _____ from other companies and individuals

- Example: The personal residence of Elon Musk is not included in Tesla's accounting records

□ **Periodicity** – the economic life of a company is divided into time periods (_____ of reporting)

□ **Going Concern** – the business will _____ indefinitely

● Finally, there are the _____ of financial accounting:

□ GAAP identifies two **measurement principles**:

- **Historical Cost Principle** – Companies should record their assets (i.e. what they own) at their cost.

<u>Purchase Land for \$50,000</u>	<u>After a year, land increases in value to \$60,000</u>

- **Fair Value Principle** – Companies should report their assets at their current market value

<u>Purchase Apple Stock for \$50,000</u>	<u>After a year, stock increases in value to \$60,000</u>

□ **Full disclosure principle** – a company must _____ all events that would impact user's decision making

- This helps fulfill the _____ requirement of useful information

- **Cost constraint** – Some information may be too _____ to gather. Must weigh benefits against costs