

Al-Mustaqbal university college

Conceptual Framework for Financial Reporting

4

Second Level: Fundamental Concepts

Prepared by

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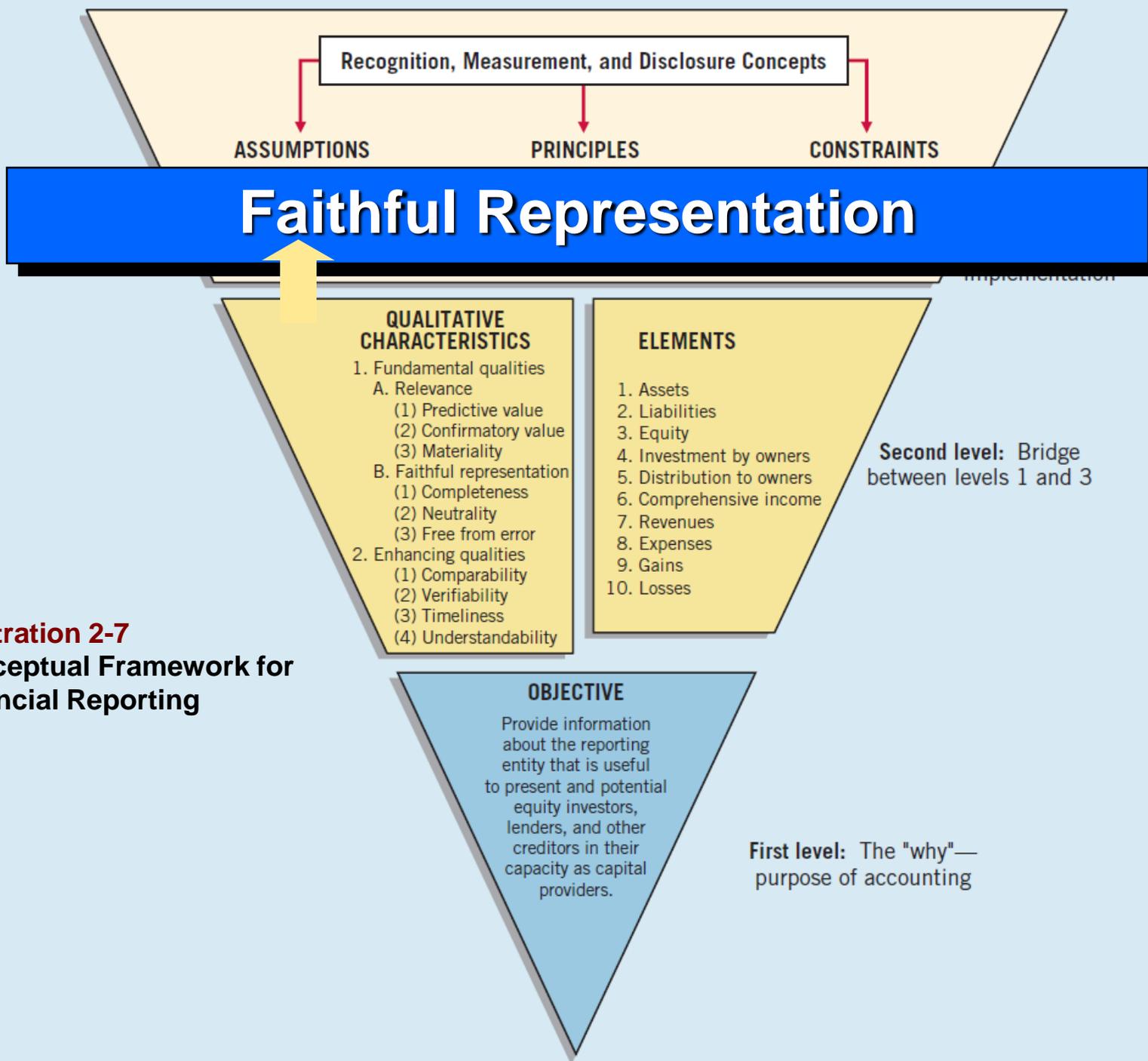
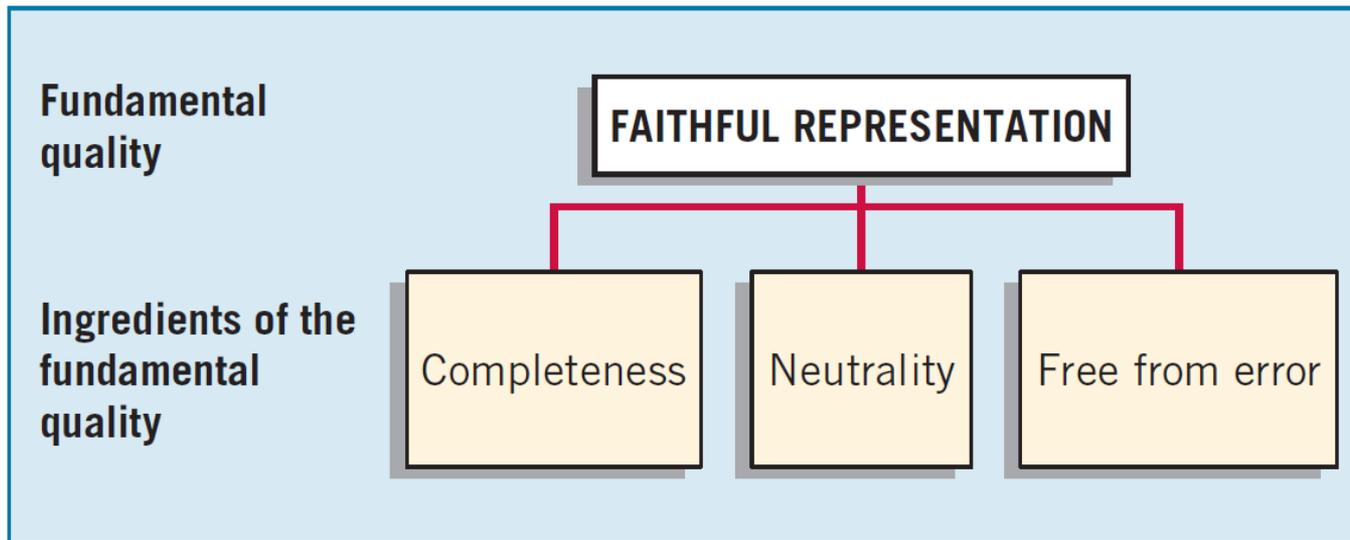


Illustration 2-7
Conceptual Framework for Financial Reporting

Second Level: Fundamental Concepts

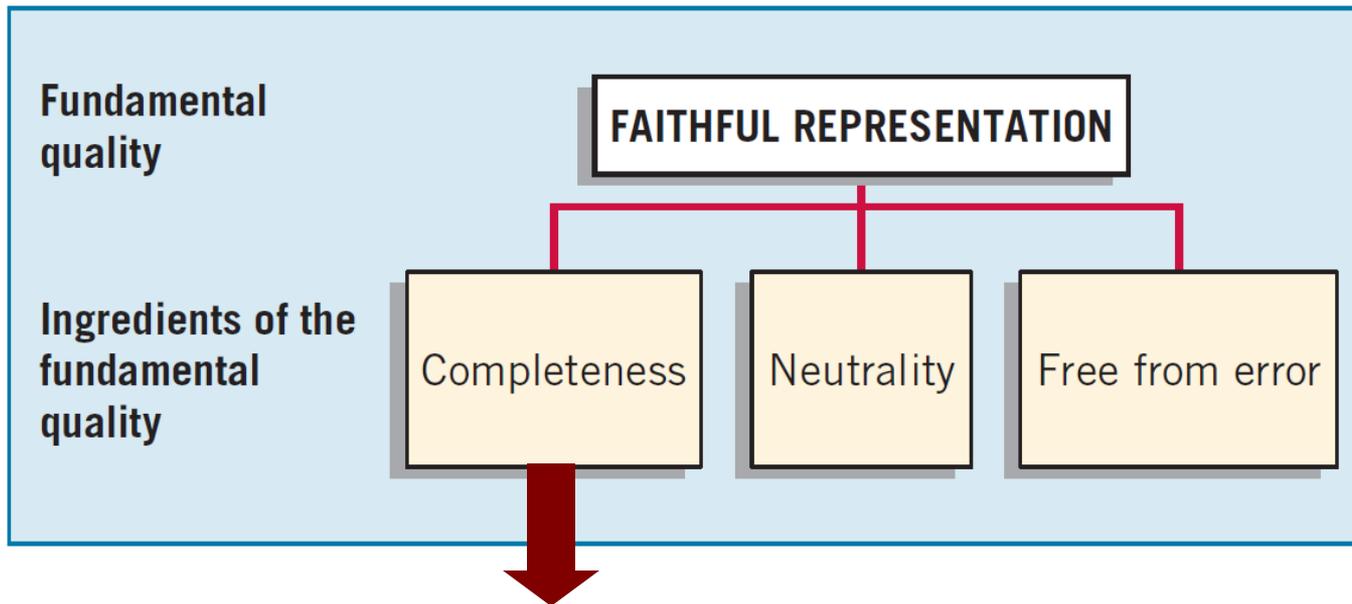
Fundamental Quality—Faithful Representation



Faithful representation means that the numbers and descriptions match what really existed or happened.

Second Level: Fundamental Concepts

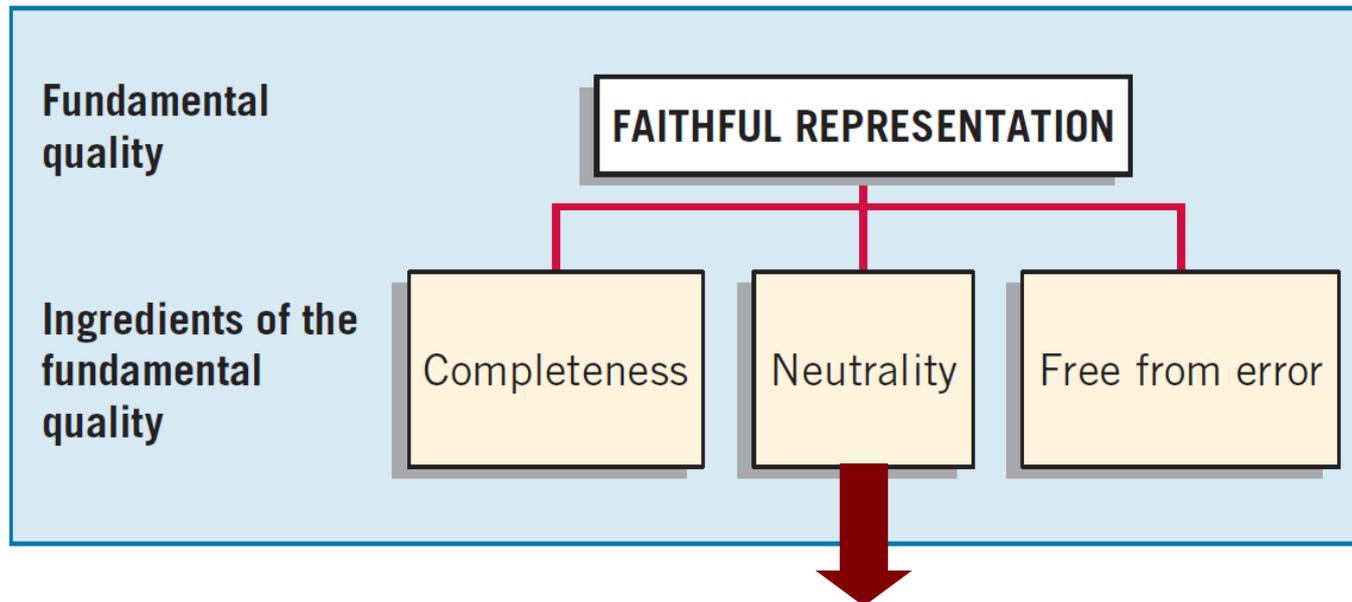
Fundamental Quality—Faithful Representation



Completeness means that all the information that is necessary for faithful representation is provided.

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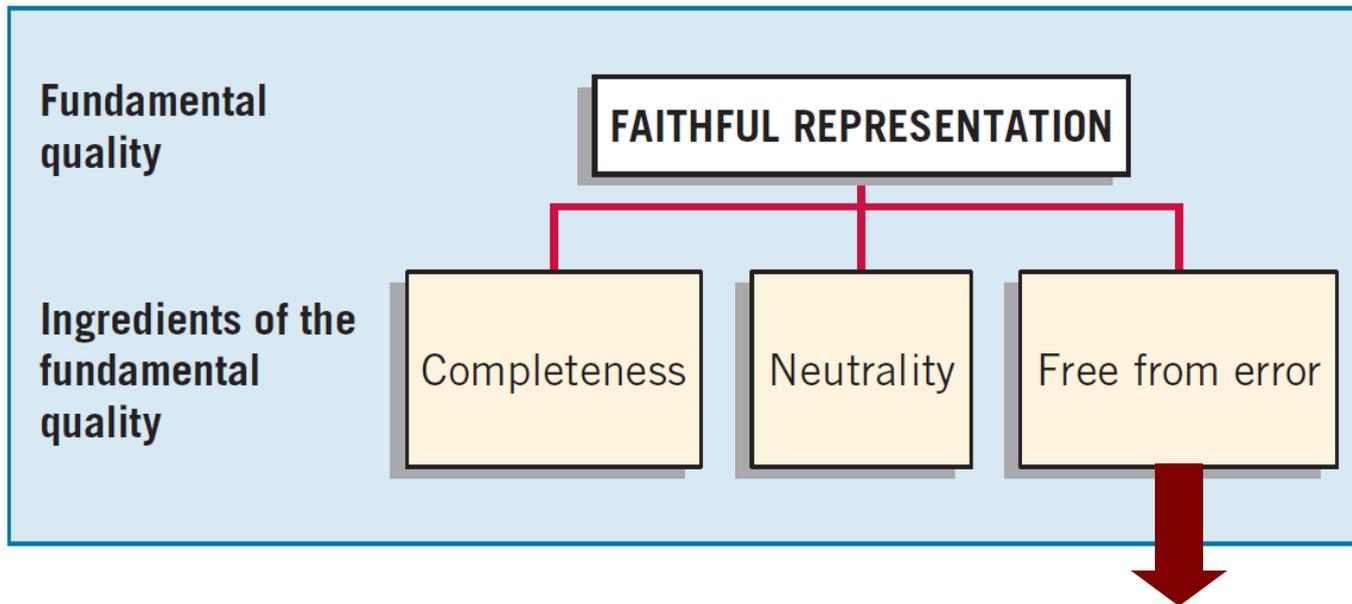
Fundamental Quality—Faithful Representation



Neutrality means that a company cannot select information to favor one set of interested parties over another.

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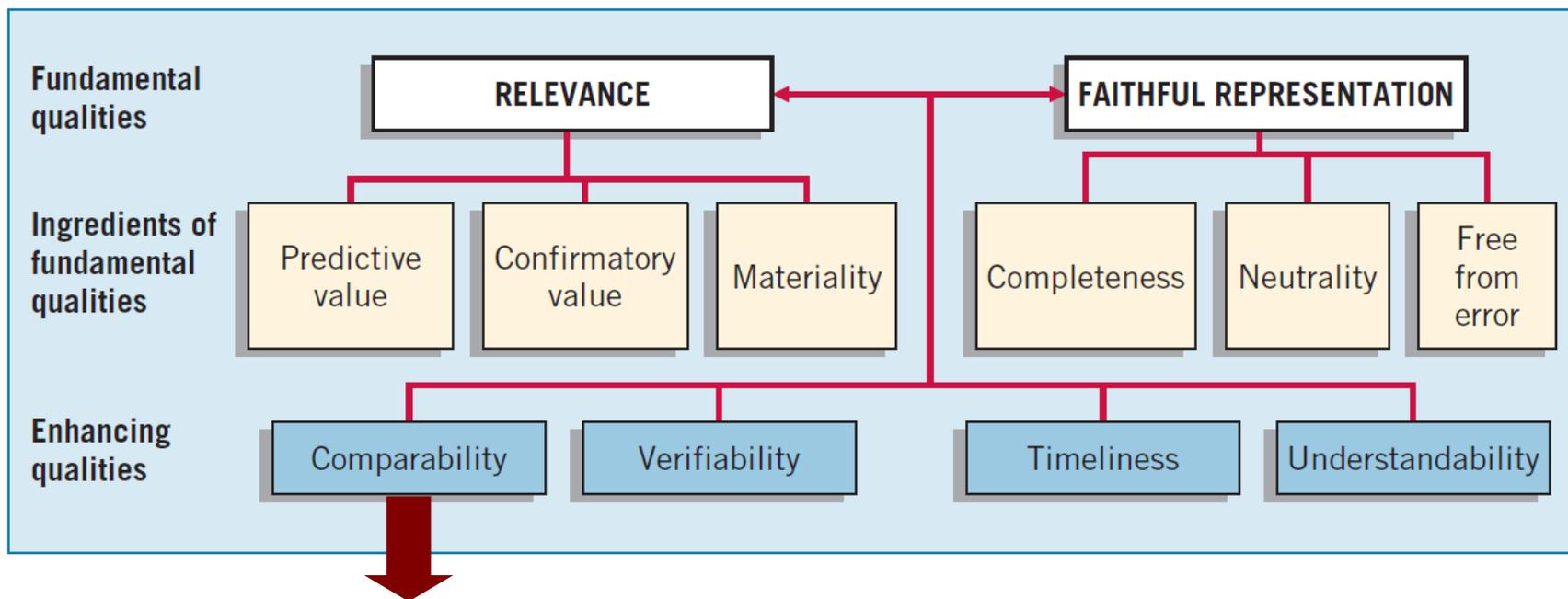
Fundamental Quality—Faithful Representation



An information item that is **free from error** will be a more accurate (faithful) representation of a financial item.

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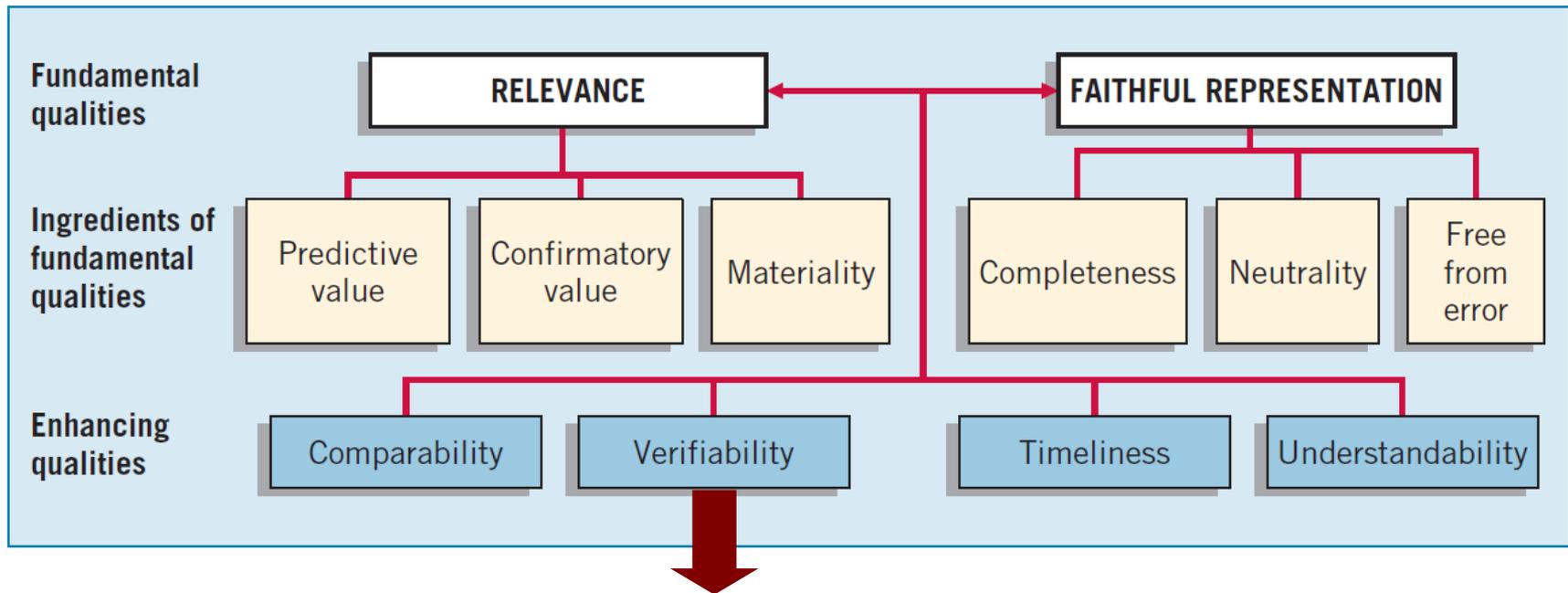
Enhancing Qualities



Information that is measured and reported in a similar manner for different companies is considered **comparable**.

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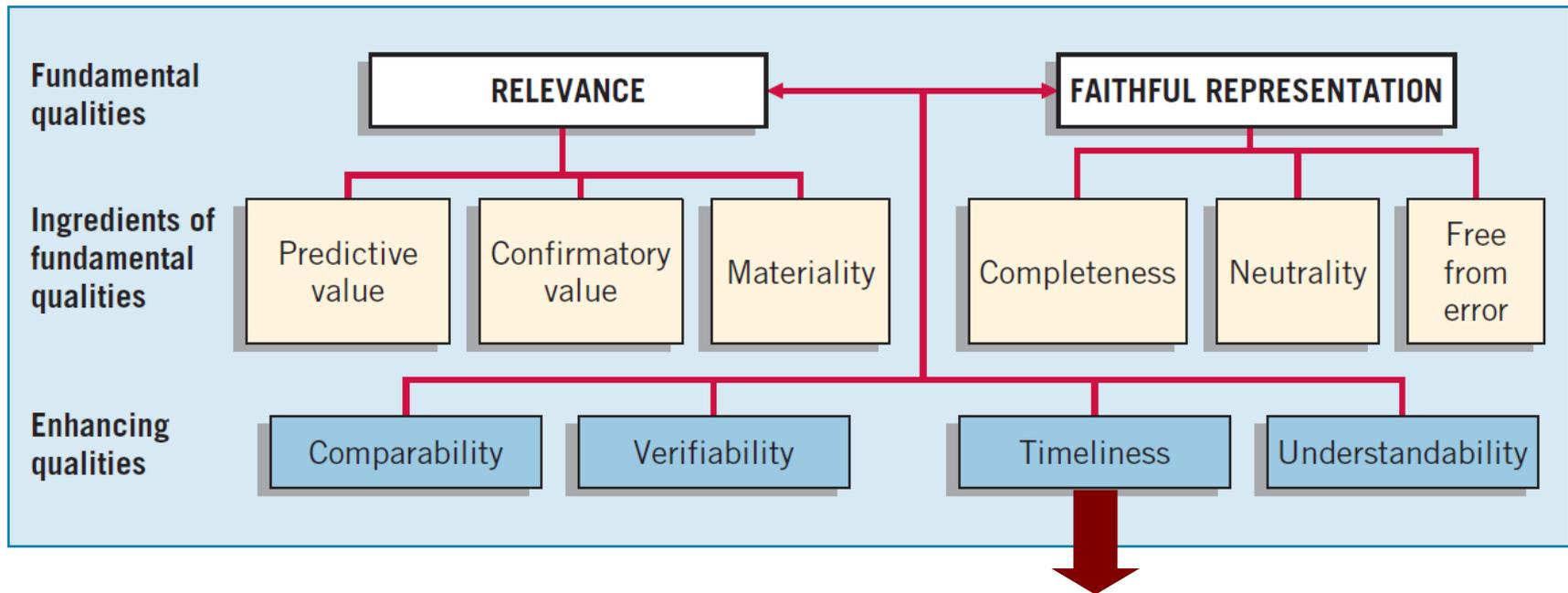
Enhancing Qualities



Verifiability occurs when independent measurers, using the same methods, obtain similar results.

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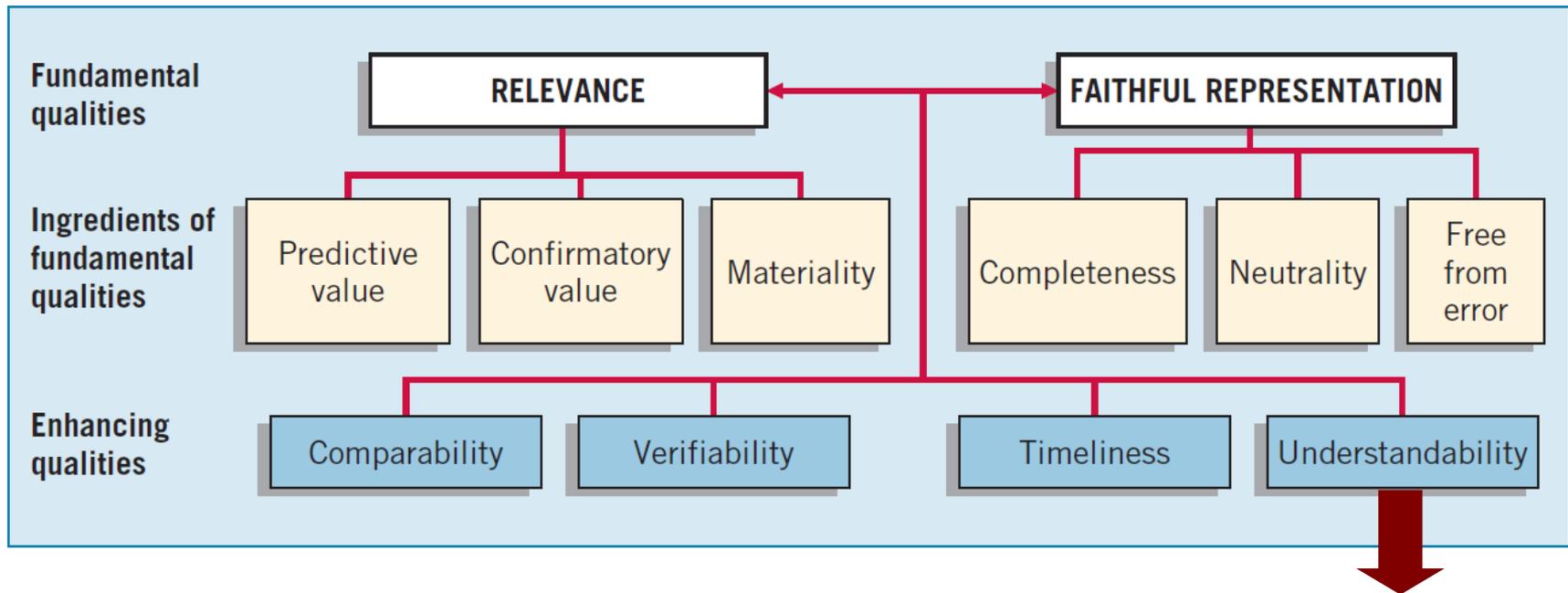
Enhancing Qualities



Timeliness means having information available to decision-makers before it loses its capacity to influence decisions.

Second Level: Fundamental Concepts

Enhancing Qualities



Understandability is the quality of information that lets reasonably informed users see its significance.

What do the numbers mean?

SHOW ME THE EARNINGS!

The emergence of new-economy businesses on the Internet has led to the development of new measures of performance. When Priceline.com splashed on the dot-com scene, it touted steady growth in a measure called “unique offers by users” to explain its heady stock price. To draw investors to its stock, Drugstore.com focused on the number of “unique customers” at its website. After all, new businesses call for new performance measures, right? Not necessarily. In fact, these indicators failed to show any consistent relationship between profits and website visits. Eventually, as the graphs on page xxx show, the profits never materialized, stock prices fell, and the dot-com bubble burst. Some have not learned a lesson from this experience. Facebook, one of the hottest IPOs of the recent social media craze, gave investors a big jolt when it reported its first earnings after going public. While its revenues from online advertisers were up 32 percent compared to the prior year’s quarter, its marketing and sales expenses increased dramatically and the company failed to exceed analysts’ expectations for its earnings. The result? The stock dropped to an all-time low.