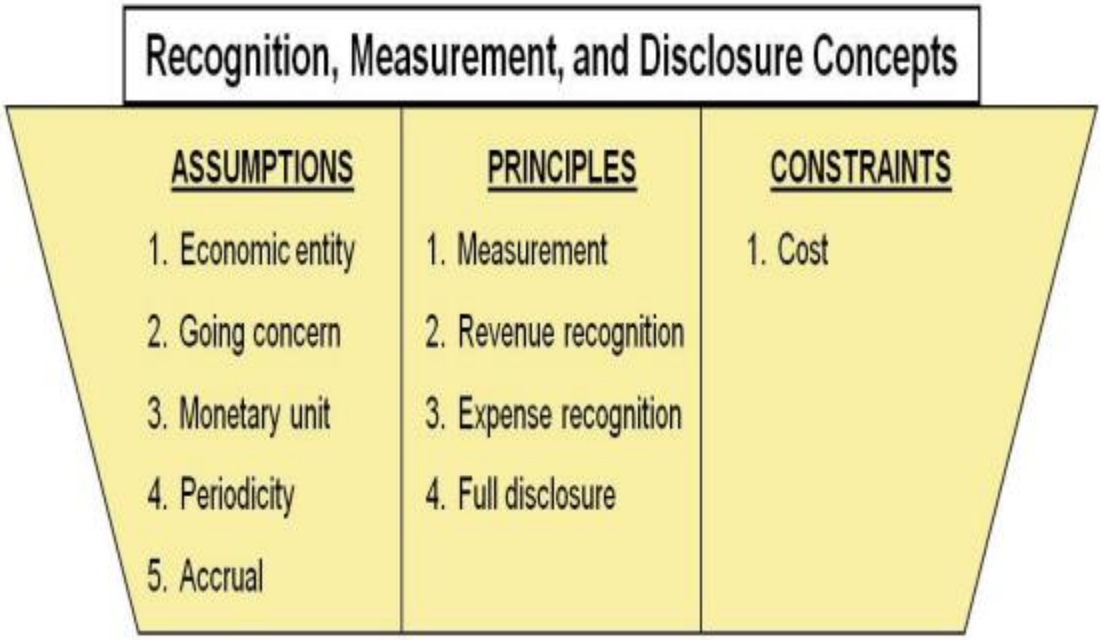
Third Level: Recognition and Measurement Concepts

The third level explains how companies should recognize, measure, and report financial elements and events.



A- The Basic Assumptions of Accounting

1. Economic Entity: The activity of a company can be kept separate and distinct from its owners and any other business.

2. Going Concern: The company will have a long life.

3. Monetary Unit: The monetary unit provides an appropriate basis for measurement and analysis of the economic activities.

4. Periodicity: Company can divide its economic activities into time periods.

5. Accrual Basis: Transactions that change a company's financial statements are recorded in the periods in which the events occur.

B- The Basic Principles of Accounting

1. Measurement Principle: (Historical Cost and Current value)

Historical cost means that assets and liabilities measurement based on

acquisition price.

Current value using information updated to reflected conditions at the

measurement date. It includes (Fair value and current cost).

2. Revenue Recognition: companies recognize revenue in the accounting period in which the performance obligation is satisfied.

3. Expense Recognition: Companies recognize expenses when the service or the product actually makes its contribution to revenue (commonly referred to as matching)

4. Full Disclosure: Companies generally provide information that is of sufficient importance to influence the judgment and decisions of an informed user.

Provided through:

- Financial Statements

- Notes to the Financial Statements
- Supplementary information

Financial Statements

Financial statements are the principal means through which a company communicates its financial information to those outside it.

These statements provide a company's history quantified in money terms.

The four main types of financial statements are:

(1) the balance sheet,

(2) the income statement,

(3) the statement of cash flows, and

(4) the statement of changes in equity.

C- Cost Constraint

This is referred to the cost-benefit relationship. The cost of providing the information must be weighed against the benefits that can be derived from using the information.

Conceptual Framework for Financial Reporting