

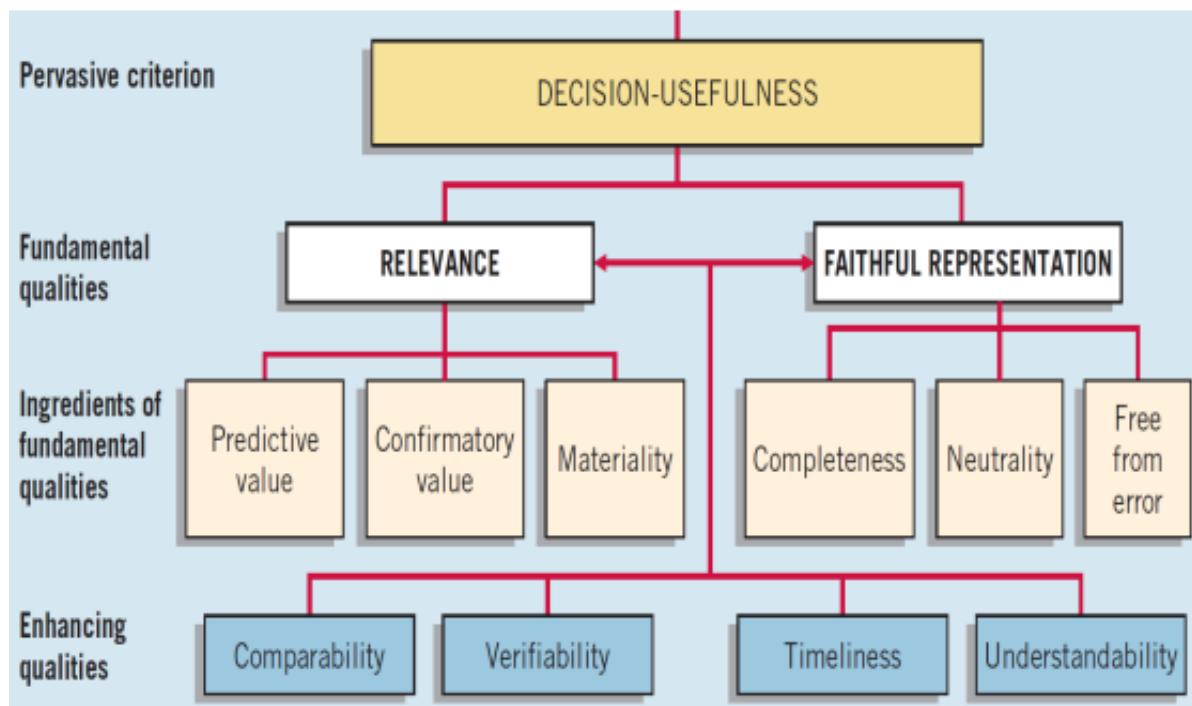
## Second Level: Fundamental Concepts

The second level provides conceptual building blocks that explain the qualitative characteristics of accounting information and define the elements of financial statements.

### Qualitative Characteristics of Accounting Information

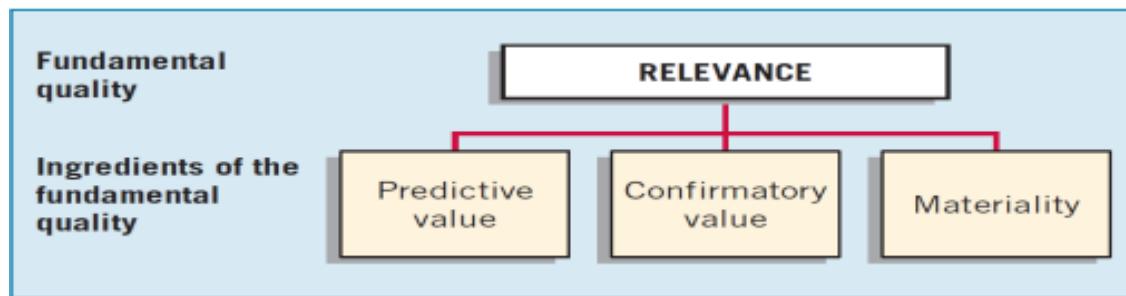
IASB identified the Qualitative Characteristics of accounting information that distinguish more useful information from less useful information for decision-making purposes. The figure (2) shows the Qualitative Characteristics of accounting information.

**The figure (2) Qualitative Characteristics of accounting information**



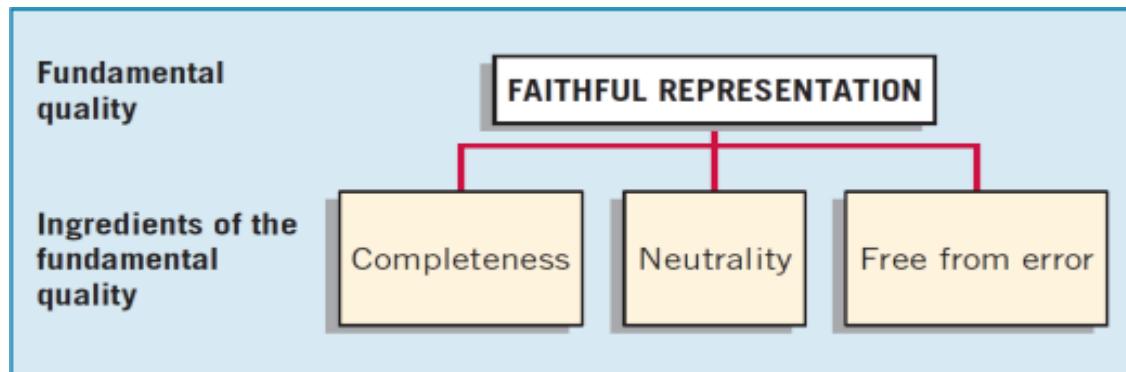
## A- Fundamental Quality:

### 1. Relevance



To have relevance, accounting information must be capable of making a difference in a decision.

### 2. Faithful Representation



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

### **B- Enhancing Qualities:**

Enhancing qualitative characteristics are complementary to the fundamental qualitative characteristics.

#### **Enhancing characteristics are:**

1. Comparability
2. Verifiability
3. Timeliness
4. Understandability

### **Basic Elements of Financial Statements**

- 1. Asset:** A present economic resource controlled by the entity as a result of past events. (An economic resource is a right that has the potential to produce economic benefits).
- 2. Liability:** A present obligation of the entity to transfer an economic resource as a result of past events.
- 3. Equity:** The residual interest in the assets of the entity after deducting all its liabilities.
- 4. Income:** Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from holders of equity claims.

**5. Expenses:** Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.

### **Third Level: Recognition and Measurement Concepts**

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

Recognition, Measurement, and Disclosure Concepts		
<u>ASSUMPTIONS</u>	<u>PRINCIPLES</u>	<u>CONSTRAINTS</u>
1. Economic entity 2. Going concern 3. Monetary unit 4. Periodicity 5. Accrual	1. Measurement 2. Revenue recognition 3. Expense recognition 4. Full disclosure	1. Cost