

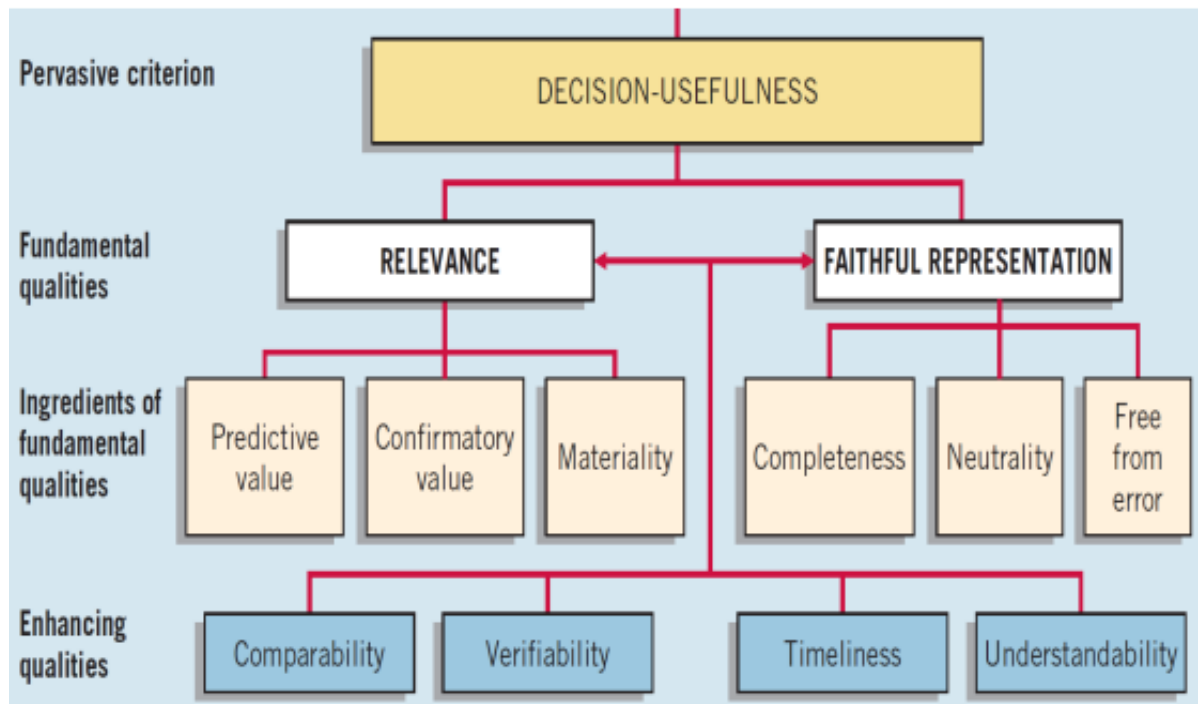
Second Level: Fundamental Concepts

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

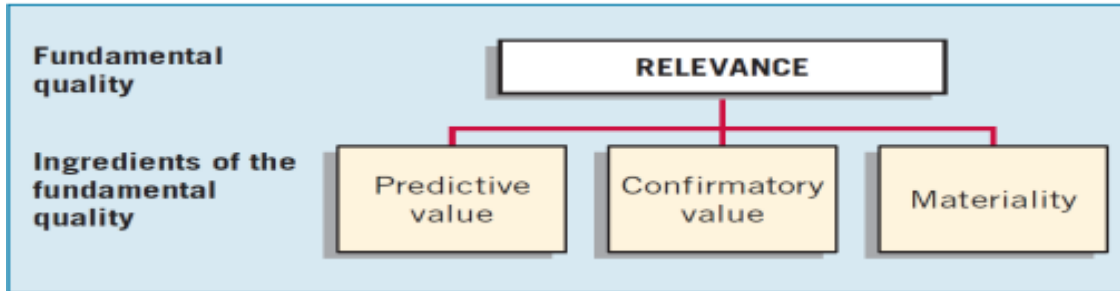
IASB identified the Qualitative Characteristics of accounting information that distinguish more useful information from less useful information for decision-making purposes. The figure (2) shows the Qualitative Characteristics of accounting information.

The figure (2) Qualitative Characteristics of accounting information



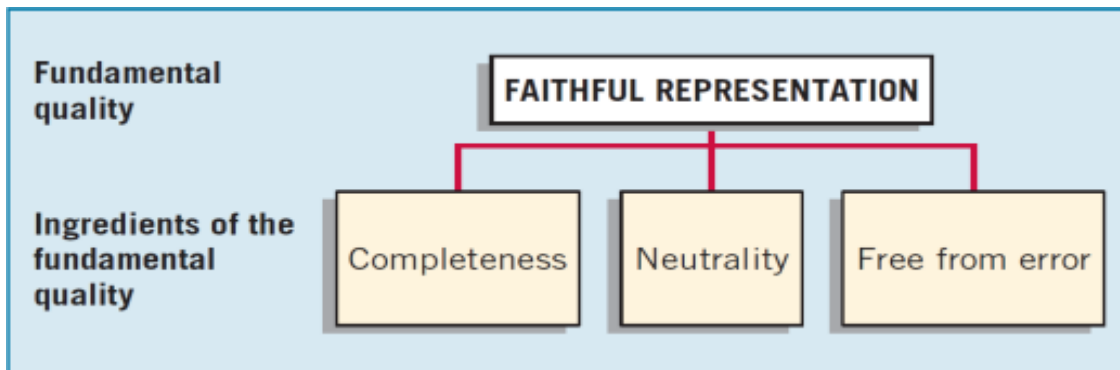
A- Fundamental Quality:

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.

