# Qualitative characteristics of useful financial information

18 January 2020 18 January 2020/ Steven Bragg The following are all qualitative characteristics of financial statements:Understandable. The information must be easily understandable to users of the financial statements. This means that information must be clearly presented, with additional information provided in the supporting footnotes as needed to assist in clarification. Relevance. The information must be relevant to users' needs, as is the case when the information affects their financial decisions. This may involve reporting particularly relevant information, or information whose omission or inaccuracy could affect users' financial decisions. Reliability. The information must be free from material errors and biases, and not misleading. The information should thus faithfully represent transactions and other events, reflect the underlying substance of events and carefully represent estimates and uncertainties through accurate disclosure. Comparability. The information must be comparable to the financial information presented for other accounting periods, so that users can identify trends in the performing and financial position of the reporting entity. Related RatesBalance Sheet Income statement Cash flow statement January 18, 2020/ Steven Bragg/ Qualitative properties are the attributes that make financial information useful to users. For analytical purposes, Qualitative properties can be differentiated into Fundamental and Increase qualitative properties. FUNDAMENTAL QUALITATIVE CHARACTERISTICS Basic characteristics distinguish useful financial reporting information from that not useful or misleading. The two basic qualitative characteristics are : Relevance Faithful representation Relevance: In accounting, the term relevance means that it will make a difference to a decision maker. Relevant information can make a difference in the decisions made by users. It is capable of making a difference in decisions whether it has predictive value, confirmatory value, or both. Predictive value helps users predict or predict future performance. Confirmatory value enables users to check and confirm previous predictions or evaluations. For example, in the decision to replace equipment that has been used over the last six years, the initial cost of the equipment is irrelevant. In other words, the initial cost is irrelevant or not relevant in the decision to replace the equipment. What will be relevant is the future amounts, such as the cost of the new equipment, and the savings that will arise when the old equipment is replaced. Here's another expression of relevance: Costs that will differ between options. Costs that will not differ between options are irrelevant. To gain relevance, the accounting information must be on time. financial issued three weeks after the end of the accounting period will be more relevant than statements issued several months after the period. Having timeliness and relevance can mean sacrificing some precision or reliability. The relevance of the information is influenced by its nature and its materiality. Materiality : Information is material about omitting it, or misusing it may affect decisions that users make on the basis of financial information about a specific reporting entity. Materiality is an aspect of relevance that is device-specific. This means that what is essential to one entity may not be essential to another. It's relative. Information is essential if it is significant enough to influence users' decisions. The materiality is affected by the nature and size of the object. Faithful Representation is the second Fundamental qualitative property. Faithful representation The financial statements represent economic phenomena in words and figures. The financial information in the financial statements should represent what it purrs to represent. Meaning, it should show what is really present (Example: Position of assets and liabilities) and what really happened (Example: Position of income and expenses), in case. There are three characteristics of faithful representation: 1. Completeness: Depiction of all the necessary information for a user to understand the phenomenon depicted. It includes all necessary descriptions and explanations (adequate or complete presentation of all necessary information), 2. Neutrality: Depiction is without bias when selecting or presenting financial information uust not manipulated in any way to influence users' decisions. (justice and freedom from bias), we often refer to a term called True and fair view in accounting. 3. 'Free from error' means that there are no errors and errors in the description of the phenomenon and no errors made in the process by which the financial information was produced; (no inaccuracies and omissions). This does not mean that no errors can occur, especially in case of estimates. The standards expect estimates to be made on a realistic basis and not arbitrarily. REINFORCING QUALITATIVE PROPERTIES To enhance qualitative properties distinguishes more useful information from less useful information. The Improve qualitative properties are divided into 4 attributes. Comparability Verifiability Timeliness Comparability Comparability comparability is the Qualitative property that enables users to identify and understand similarities and differences between objects. Information about a reporting entity is more useful if it compares to similar information about other entities and with similar information about other entities and with similar information about the same entity for another period or date. Comparable information enables comparisons within the entity and across entities. When comparisons are made within the company information from an accounting period to For example: income is compared for the years 2014, 2015 and 2016. Comparability of information between units enables analysis of similarities and differences between different companies. The corresponding information for previous periods shall be displayed to allow comparison over time. Consistency consistency Consistency is not the same as Comparability. Consistency refers to the use of the same methods for the same articles (Treatment Consistency) either from period to period within a reporting entity or in a single period across entities. Users must be able to distinguish between different accounting policies in order to make a valid comparison of similar records in different entity accounts. VERIFIABILITY An entity's accounting results are verifiable when they are reproducible, so that, given the same data and assumptions, an independent auditor can produce the same results as the company did. Verifiability helps ensure that Information faithfully represents the economic phenomena it purifies to represent. This means that various knowledgeable and observers could reach a consensus that a particular depiction is a faithful representation. Verifiability is not about determining whether the assumptions a company makes are correct. Rather, it is a question of determining whether the accounting results the company is achieving are appropriate for the data, given the assumptions that have been made. The Financial Accounting Standards Board, which writes the rules for the U.S. accounting profession, says that controllability ensures that accounting measures represent what they claim to represent. It is not enough for a company to say that the answer is 2. It also has to show you 1+1 on the other side of the equation. Controllability. Verifiability has its own limitations as well. Verifiability is not related to determining the veracity of the data an entity provides, but rather with ensuring that its results logically flow from the data. Finally, verifiability is silent about the interpretation of accounting results. TIMELINES The timeliness of accounting information refers to the provision of information to users quickly enough to take action. Information becomes outdated and useless if it is not reported within time. Usually, the Charter specifies the time for drafting and presenting financial reports. Intelligibility Class, Characterize presenting information clearly and concisely makes it understandable. a principle that a company's financial information should be presented in such a way that a person with reasonable knowledge of business and finance, and the willingness to study the information, can understand it; This principle is included in the Statement of Principles of the Board of Accounts. by Shyam Sunder Source : ACCA Study Materials