BRIEF EXERCISE 2-1

(a) Comparability
(b) Timeliness
(c) Predictive value
(d) Relevance
(e) Neutrality

BRIEF EXERCISE 2-2

(a) Faithful representation
(b) Confirmatory value
(c) Free from error
(d) Completeness
(e) Understandability

BRIEF EXERCISE 2-4

(a) Verifiability
(b) Comparability
(c) Consistency
(d) Timeliness

BRIEF EXERCISE 2-8

(a) Periodicity
(b) Monetary unit
(c) Going concern
(d) Economic entity

BRIEF EXERCISE 2-9

(a) Revenue recognition
(b) Expense recognition
(c) Full disclosure
(d) Historical cost principle

BRIEF EXERCISE 2-11

(a) Material; although amount is small the change affects the trend.
(b) Material; netting obsures the information on the gain and loss.
(c) Likely not material; the amount of depreciation expense, if capitalized would not have a significant impact on income.

EXERCISE 2-1

(a) True

(b) False. General purpose financial reporting helps users who lack the ability to demand all the financial information they need from an entity and therefore must rely, at least partly, on the information provided in financial reports. Managers and company insiders generally do not meet these criteria.

(c) False. Accounting standards based on individual conceptual frameworks generally will *not* result in consistent and comparable accounting reports. Rather, standard-setting that is based on personal conceptual frameworks will lead to different conclusions about identical or similar issues than it did previously. As a result, standards will not be consistent with one another and past decisions may not be indicative of future ones.

(d) False. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in making decisions in their capacity as capital providers. However, that information may also be useful to other users of financial reporting who are not capital providers.

(e) False. An implicit assumption is that users need reasonable knowledge of business and financial accounting matters to understand the information contained in financial statements. This point is important. It means that financial statement preparers assume a level of competence on the part of users. This assumption impacts the way and the extent to which companies report information.

(f) True.

EXERCISE 2-2

(a) False. The fundamental qualitative characteristics that make accounting information useful are relevance and faithful representation.

(b) True.

(c) False. The Framework does not include prudence or conservatism as desirable qualities of financial reporting information. The framework indicates that prudence or conservatism generally is in conflict with the quality of neutrality. This is because by being prudent or conservative likely leads to a bias in the reported financial position and financial performance. In fact, introducing biased understatement of assets (or overstatement of liabilities) in one period frequently leads to overstating financial performance in later periods—a result that cannot be described as prudent. This is inconsistent with neutrality, which encompasses freedom from bias.

(d) False. To be a faithful representation, information must be complete, neutral, and free of material error.

**(e) False. While comparability does pertain to the reporting of information in
a similar manner for different companies, it also refers to the consistency of information, which is present when a company applies the same accounting treatment to similar events, from period to period. Through such application the company shows consistent use of accounting standards and this permits valid comparisons from one period to
the next.**

(f) False. Verifiability is an enhancing characteristic for both relevance and faithful representation. Verifiability occurs when independent measurers, using the same methods obtain similar results.

(g) True.

EXERCISE 2-4

(a) Comparability.
(b) Confirmatory Value.
(c) Comparability (Consistency).
(d) Neutrality.
(e) Verifiability.
(f) Relevance.
(g) Comparability (Consistency), Verifiability, Timeliness, and Understandability.
(h) Materiality
(i) Faithful Representation.
(j) Relevance and Faithful Representation.
(k) Timeliness.

EXERCISE 2-6

(a) 8. Expense recognition principle.
(b) 6. Historical cost principle.
(c) 9. Full disclosure principle.
(d) 2. Going concern assumption.
(e) 10. Revenue recognition principle.
(f) 1. Economic entity assumption.
(g) 4. Periodicity assumption.
(h) 7. Fair value principle.
(I) 3. Monetary unit assumption.

EXERCISE 2-7

(a) Historical cost principle.
(b) Accrual-basis assumption.
(c) Full disclosure principle.
(d) Expense recognition principle.
(e) Fair value principle.
(f) Economic entity assumption.
(g) Full disclosure principle.
(h) Revenue recognition principle.
(i) Full disclosure principle.
(j) Revenue and expense recognition principles.
(k) Economic entity assumption.
(l) Periodicity assumption.
(m) Expense recognition principle.
(n) Cost constraint.
(o) Historical cost principle.
(p) Accrual-basis assumption.
(q) Expense recognition principle.