

Esercizio e Caso di studio Conceptual Framework – da svolgere in aula

Testo Caso di Studio:

CA2.8 (LO2) (Qualitative Characteristics) Recently, your Uncle Carlos Beltran, who knows that you always have your eye out for a profitable investment, has discussed the possibility of your purchasing some company bonds. He suggests that you may wish to get in on the “ground floor” of this deal. The bonds being issued by Neville AG are 10-year debentures which promise a 40% rate of return. Neville manufactures novelty/party items. You have told Neville that, unless you can take a look at its financial statements, you would not feel comfortable about such an investment. Believing that this is the chance of a lifetime, Uncle Carlos has procured a copy of Neville's most recent, unaudited financial statements which are a year old. These statements were prepared by Mrs. Andy Neville. You peruse these statements, and they are quite impressive. The statement of financial position showed a debt to equity ratio of 0.10 and, for the year shown, the company reported net income of €2,424,240. The financial statements are not shown in comparison with amounts from other years. In addition, no significant note disclosures about inventory valuation, depreciation methods, loan agreements, etc. are available.

Instructions

Write a letter to Uncle Carlos explaining why it would be unwise to base an investment decision on the financial statements that he has provided to you. Be sure to explain why these financial statements are neither relevant nor a faithful representation.

Esercizio

E.2.3 The Conceptual Framework identifies the qualitative characteristics that make accounting information useful. Presented below are a number of questions related to these qualitative characteristics and underlying constraint.

- a. What is the quality of information that enables users to confirm or correct prior expectations?
- b. A noted accountant once remarked, “If it becomes accepted or expected that accounting principles are determined or modified in order to secure purposes other than economic measurement, we assume a grave risk that confidence in the credibility of our financial information system will be undermined.” Which qualitative characteristic of accounting information should ensure that such a situation will not occur? (Do not use faithful representation.)
- c. Muruyama Group switches from FIFO to average-cost and then back to FIFO over a 2-year period. Which qualitative characteristic of accounting information is not followed?
- d. Assume that the profession permits the savings and loan industry to defer losses on investments it sells, because immediate recognition of the loss may have adverse economic consequences on the industry. Which qualitative characteristic of accounting information is not followed? (Do not use relevance or faithful representation.)
- e. What are the two fundamental qualities that make accounting information useful for decision-making?

f. Watteau Inc. does not issue its first-quarter report until after the second quarter's results are reported. Which qualitative characteristic of accounting is not followed? (Do not use relevance.)

g. Predictive value is an ingredient of which of the two fundamental qualities that make accounting information useful for decision-making purposes?

h. Duggan, Inc. is the only company in its industry to depreciate its plant assets on a straight-line basis. Which qualitative characteristic of accounting information may not be present?

i. Nadal Company has attempted to determine the replacement cost of its inventory. Three different appraisers arrive at substantially different amounts for this value. The president, nevertheless, decides to report the middle value for external reporting purposes. Which qualitative characteristic of information is lacking in these data? (Do not use reliability or representational faithfulness.)