

BUSINESS ENGLISH

General purpose financial reporting

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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. Capital providers are the primary users of financial reporting.

To accomplish the objective, financial reports should communicate information about an entity's economic resources, claims to those **resources**[\[1\]](#), and the transactions and other events and circumstances that change them. The degree to which that financial information is useful will depend on its qualitative characteristics.

Qualitative characteristics are the attributes that make financial reporting information useful. The qualitative characteristics are complementary concepts that each contribute to the usefulness of financial reporting information. However, for analysis purposes, it is helpful to distinguish the qualitative characteristics as either fundamental or **enhancing**[\[2\]](#) depending on how they affect the usefulness of information. Providing useful financial reporting information is limited by two pervasive **constraints**[\[3\]](#) on financial reporting, *materiality* and *cost*. Fundamental qualitative characteristics distinguish useful financial reporting information from information that is not useful or is **misleading**[\[4\]](#). For financial information to be useful, it must possess the two fundamental qualitative characteristics—*relevance* and *faithful representation*. Relevant information is capable of making a difference in decision making by virtue of its predictive or confirmatory value. Financial reporting information is a faithful representation if it depicts the substance of an economic phenomenon completely, neutrally, and without material error.

[\[1\]](#) Diritti di proprietà su beni mobili detenuti da un soggetto diverso dal proprietario.

[\[2\]](#) Migliorative, integrative.

[3] Vincoli, limiti.

[4] Fuorviante, ingannevole.

COMPREHENSION QUESTIONS

1. Who are the primary users of financial reports and what decision do they have to make?
2. Another term for 'equity investor' is
a. bondholder b. shareholder c. supplier
3. Another term for 'lender' is
a. bondholder b. shareholder c. supplier
4. What are the qualitative characteristics of decision useful financial information?
5. Complete the sentence with ONE word: 'Financial information that is decision useful or that is not misleading is _____.'
6. Complete the sentence with ONE word: 'Financial information that predicts or confirms a financial or economic phenomenon is _____.'
7. What constraints affect the supply of financial information?
8. Which word or phrase is the 'odd one out' in this list and why?
a. neutral b. no material error c. fundamental d. complete

ANSWERS

1. capital providers, who have to decide whether to provide economic resources or not
2. b
3. a
4. fundamental and enhancing
5. fundamental
6. relevant
7. materiality and cost
- 8 c. fundamental; it is not a required feature of 'faithful representation'