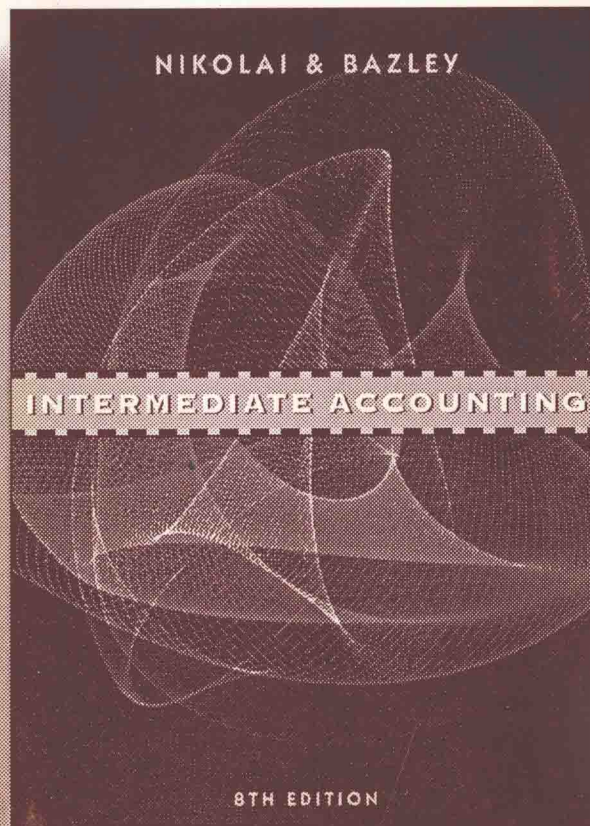


**TEST BANK VOLUME 1
CHAPTERS 1-11, APPENDICES C & D**

Intermediate Accounting

Eighth Edition



Nikolai and Bazley

Prepared by

Dick Wasson, David Harr, Cheryl Fulkerson, and Jeffrey Miller

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Loren A. Nikolai

University of Missouri-Columbia

John D. Bazley

University of Denver

Prepared by

Dick Wasson

Southwestern College

David Harr

George Mason University

Cheryl Fulkerson

University of Texas, San Antonio

Jeffrey Miller

Augusta State University



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Acquisitions Editor: Sharon Oblinger

Developmental Editor: Sara Wilson

Marketing Manager: Dan Silverburg

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Chapter 1 The Environment of Financial Reporting

MULTIPLE CHOICE

PRIMARY AND SECONDARY MARKETS

- C 1. Exchanges of capital stock and bonds that occur between investors take place in:
- a. primary markets
 - b. open markets
 - c. secondary markets
 - d. private markets
- B 2. Exchanges of capital stock and bonds between a corporation and investors take place in:
- a. secondary markets
 - b. primary markets
 - c. stock exchanges
 - d. tertiary markets

EXTERNAL AND INTERNAL USERS

- A 3. The four major financial statements of a corporation consist of the:
- a. income statement, balance sheet, statement of cash flows and statement of changes in stockholders' equity
 - b. balance sheet, statement of cash flows, statement of retained earnings, and income statement
 - c. income statement, statement of cash flows, statement of owners' equity, and balance sheet
 - d. statement of cash flows, balance sheet, income statement, and statement of capital equity
- D 4. Creditors' information needs revolve around all of the following decisions, except:
- a. extending credit
 - b. maintaining a credit relationship
 - c. not extending credit
 - d. investing in credit instruments
- A 5. Which of the following is an internal user of a company's financial information?
- a. company treasurer
 - b. stockholder in the company
 - c. bank lending to the company
 - d. union representative
- C 6. Which of the following is not a decision that external users of a company's financial information would make?
- a. whether or not to extend credit to the company
 - b. whether or not to hold the company's stock
 - c. whether or not the company should add a new product line
 - d. whether or not to ask for an increase in employees' benefits during union contract negotiations

- B 7. Which characteristic applies more to financial accounting than to managerial accounting?
- a. primarily segmented reports
 - b. primarily quantitative information
 - c. internal decision focus
 - d. statement format determined by company information needs

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

- C 8. Which of the following is *not* a current or previous policy-making body for the accounting profession?
- a. Financial Accounting Standards Board
 - b. Accounting Principles Board
 - c. Financial Executives Institute
 - d. Securities and Exchange Commission
- D 9. Which of the following documents includes all of the accounting standards?
- a. Regulation S-X
 - b. The FASB Conceptual Framework
 - c. Statements of Financial Accounting Standards
 - d. none of the above
- D 10. Which of the following categories of GAAP is the most important?
- a. pronouncements of bodies of expert accountants that have been exposed for public comment
 - b. pronouncements of bodies of expert accountants that have not been exposed for public comment
 - c. widely accepted practices and pronouncements representing a prevalent practice in a particular industry
 - d. pronouncements of authoritative bodies

ESTABLISHMENT OF ACCOUNTING STANDARDS

- C 11. The organization that presently has the primary responsibility to establish generally accepted accounting principles that are applicable to the financial statements of entities in the private sector of the U.S. is the:
- a. Accounting Principles Board
 - b. Securities and Exchange Commission
 - c. Financial Accounting Standards Board
 - d. Committee on Accounting Procedure
- C 12. Going from 1938 to the present, which is the correct sequence of accounting rule-making bodies?
- a. APB-CAP-FASB
 - b. CAP-FASB-APB
 - c. CAP-APB-FASB
 - d. FASB-APB-CAP

OPERATION OF THE FASB

- D 13. Which of the following statements is true?
- a. in order to remain impartial, the FASB discourages public input during development of standards
 - b. FASB accounting standards are the result of clearly defined objectives, an integrated body of theory, and the known consequences of actions
 - c. the FASB deliberates and issues accounting standards only after receiving a formal letter of request from the SEC
 - d. accounting standards, which reflect social decisions, are often the result of compromise
- C 14. Concerning FASB membership, which statement is not true?
- a. not all members are CPAs from public practice
 - b. all members are full-time and fully paid
 - c. all members are also members of the Financial Accounting Foundation
 - d. all members must sever organizational ties with their previous employer
- A 15. How many FASB members are there?
- a. 7
 - b. 11
 - c. 17
 - d. 21
- C 16. Which pronouncements are not issued by FASB?
- a. Statements of Financial Accounting Concepts
 - b. Technical Bulletins
 - c. Opinions
 - d. Interpretations

ORGANIZATIONS AFFECTING GAAP

- D 17. Which organization has the most legal authority?
- a. Financial Accounting Standards Board
 - b. Accounting Standards Executive Committee
 - c. Governmental Accounting Standards Board
 - d. Securities and Exchange Commission
- A 18. The Securities and Exchange Commission has the legal authority to prescribe accounting principles and reporting practices for:
- a. all companies issuing publicly traded securities
 - b. all companies issuing any type of securities
 - c. all companies
 - d. all corporations
- C 19. Issuance of a new International Accounting Standard requires approval of at least:
- a. 5/7 of the board
 - b. 2/3 of the board
 - c. 3/4 of the board
 - d. 5/6 of the board

- B 20. The FASB Emerging Issues Task Force issues which of the following:
- Statements of Position* to influence the development of principles
 - Consensus Positions* on the implementation of standards
 - Financial Reporting Releases* on guidelines for reporting issues
 - Technical Bulletins* on accounting and reporting problems

CREATIVE AND CRITICAL THINKING

- C 21. Critical thinking is most important in which of the following problem-solving steps?
- recognizing a problem
 - identifying alternative solutions
 - evaluating the alternatives
 - selecting a solution from among the alternatives

PROBLEMS

22.
Listed below are 12 characteristics of accounting, some of which are more closely related to financial accounting, while others are related to managerial accounting.

- ___ 1. Focuses on external users.
- ___ 2. Uses a present and future time frame.
- ___ 3. Uses qualitative and quantitative data.
- ___ 4. Reports are concerned primarily with the total company.
- ___ 5. Is governed by GAAP.
- ___ 6. Focuses on internal users.
- ___ 7. Uses report formats prescribed by GAAP.
- ___ 8. Reports are concerned with individual departments.
- ___ 9. Uses quantitative data.
- ___ 10. Is governed by the internal needs of a company.
- ___ 11. Uses report formats best suited for the specific decisions being made.
- ___ 12. Uses an historical time frame.

Required:

Indicate which characteristic is financial and which is managerial by placing a (f) or a (m) in the space provided.

SOLUTION:

- | | |
|------|-------|
| 1. f | 7. f |
| 2. m | 8. m |
| 3. m | 9. f |
| 4. f | 10. m |
| 5. f | 11. m |
| 6. m | 12. f |

23.

Listed below are several types of pronouncements that the FASB issues. Following the list is a series of descriptive statements.

- a. Statements of Financial Accounting Standards
- b. Interpretations
- c. Technical Bulletins
- d. Statements of Financial Accounting Concepts
- e. Guide for Implementation

- _____ 1. Establishes a theoretical foundation upon which to base financial accounting and reporting standards.
- _____ 2. Provides clarification of conflicting or unclear issues relating to previously issued pronouncements.
- _____ 3. FASB Q's and A's.
- _____ 4. Establishes generally accepted accounting principles.
- _____ 5. Provides guidance on accounting and reporting problems related to an underlying standard.

Required:

Match each pronouncement with its descriptive statement by placing the appropriate letter in the space provided.

SOLUTION:

- 1. d
- 2. b
- 3. e
- 4. a
- 5. c

24.

Listed below are the steps the FASB goes through in issuing a new Statement.

- _____ a. Conduct research
- _____ b. Deliberate on findings
- _____ c. Hold public hearings
- _____ d. Hold public hearings
- _____ e. Identify topic
- _____ f. Issue Discussion Memorandum
- _____ g. Issue Exposure Draft
- _____ h. Issue Statement
- _____ i. Modify Exposure Draft
- _____ j. Vote

Required:

Indicate the proper sequence of these steps.

SOLUTION:

- | | | | |
|-----------|-----------|-------|------|
| a. 2 | d. 4 or 7 | g. 6 | j. 9 |
| b. 5 | e. 1 | h. 10 | |
| c. 4 or 7 | f. 3 | i. 8 | |

ESSAY**25.**

Assume you are tutoring a beginning accounting student who tells you that the members of the FASB must have a great deal of power because they have the authority to issue standards that dictate accounting procedure.

Required:

Explain why accounting standards are the result of compromise and how such compromises are reached.

SOLUTION:

In order for a new standard to be issued, a majority of at least a 5 to 2 vote is necessary. In order for such a vote to occur, the members within the board must negotiate with each other to determine which points are important and which are not. In turn, each board member is influenced by the data and opinions collected from the various interest parties-preparers, users, and auditors-during the multistage process of issuing a standard. This includes discussion memorandums, public hearings, and exposure drafts.

26.

Your accounting instructor allows you to look at his grade book in order to verify the points you have received to date in the final course taken by all accounting majors. While looking at your points, you notice that your best friend's score on the last exam was recorded incorrectly. He received a 68 on the test but it has been recorded as an 86 in the grade book. Your friend needs a passing grade in this class in order to graduate. If the correct score is recorded, he might not have enough points to pass the course.

Required:

Discuss the steps you should take to deal with this ethical dilemma using three ethical criteria. You need not indicate the ethical action you would take.

SOLUTION:

Students may answer in a variety of ways, however, their answers should include the following steps: (1) identifying the stakeholders (the student, the friend, and the instructor) and the student's responsibilities (to him/herself, the friend, and the instructor); (2) discussion of the three ethical criteria, (a) utility: what action would be optimal for all stakeholders?, (b) rights: what action respects the rights of all the stakeholders?, (c) justice: what action is fair and just?; (3) identifying any "overwhelming factors" that might justify disregarding one or more of the three ethical criteria; and (4) deciding if the action to be taken is ethical.

Chapter 2 Financial Reporting: Its Conceptual Framework

MULTIPLE CHOICE

THE FASB'S CONCEPTUAL FRAMEWORK OF FINANCIAL ACCOUNTING

- B 1. Which of the following statements is not true with regard to the benefits to be derived from the FASB's conceptual framework of accounting?
- a. it will serve as a guide in establishing standards for the FASB
 - b. the *Statements of Financial Accounting Concepts* will be the primary source of GAAP for accountants
 - c. it will establish the objectives of financial reporting
 - d. it will enhance comparability between different companies' financial statements
- B 2. How many Statements of Financial Accounting Concepts have been issued?
- a. 6
 - b. 7
 - c. 31
 - d. over 100
- B 3. The first part of the conceptual framework project had to do with:
- a. elements
 - b. objectives
 - c. qualitative characteristics
 - d. recognition and measurement
- A 4. The accounting projects portion of the FASB's conceptual framework project deals with:
- a. which accounting elements should be reported and how they should be measured
 - b. which accounting elements should be reported and where the information should be reported
 - c. how the accounting elements should be measured and how information should be displayed in financial reports
 - d. when accounting elements should be recognized and how information should be displayed in financial reports
- C 5. The FASB divided its conceptual framework activities into several projects. Which of the following was not one of those projects?
- a. objectives project
 - b. qualitative characteristics project
 - c. financial reporting project
 - d. accounting project

OBJECTIVES OF FINANCIAL REPORTING

- C 6. The FASB has determined that the primary focus of financial reporting about an entity's performance is information on:
- a. resources and obligations
 - b. management's stewardship of resources
 - c. comprehensive income and its components
 - d. cash flows and financial flexibility

- A 7. The FASB concluded that the most general objective of financial reporting is to:
- provide information useful in the decisions made by external users
 - meet the needs of internal users
 - provide information about an entity's earnings
 - provide information about an entity's cash flows
- B 8. According to *Statement of Financial Accounting Concepts No. 1* on objectives, which is *not* a specific objective?
- to provide information about an enterprise's fund flows
 - to provide information that is useful to present to potential investors, creditors, and other users in making rational investment, credit, and similar decisions
 - to provide information about an enterprise's comprehensive income and its components
 - to provide information about an enterprise's economic resources, obligations, and owners' equity
- D 9. Which of the following is a *specific objective* of financial reporting?
- provide information that is useful to investors in making investment decisions
 - provide information useful in assessing the amounts, timing, and uncertainty of prospective cash receipts
 - provide information useful in assessing the amounts, timing, and uncertainty of prospective cash inflows
 - provide information about a company's economic resources, obligations, and owners' equity
- B 10. Which of the following statements is *not* true with regard to financial reporting objectives in other countries?
- in France and Germany, accounting standards are very conservative
 - in Sweden, the consistent use of accounting standards is required
 - in Germany, creditors are regarded as the primary user of financial reports
 - in France, financial accounting standards are influenced by income tax rules

TYPES OF USEFUL INFORMATION

- C 11. Which of the following statements regarding *financial flexibility* is true?
- the ability of a company to provide a return on investment
 - the ability of a company to take effective actions to insure the return of capital to the company
 - the ability of a company to take effective actions to change the amounts and timing of cash flows
 - the ability of a company to maintain a given level of operations
- A 12. Which of the following types of information was specifically identified by the FASB as being useful in assessing the amounts, timing, and uncertainty of a company's future cash flows?
- liquidity
 - return of investment
 - financial capability
 - credit standing

QUALITATIVE CHARACTERISTICS OF ACCOUNTING INFORMATION

- B 13. Which qualitative characteristic is an ingredient of relevance?
- verifiability
 - timeliness
 - neutrality
 - representational faithfulness
- B 14. According to the FASB hierarchy of qualitative characteristics, the two primary qualities making accounting information useful are:
- understandability and decision usefulness
 - relevance and reliability
 - verifiability and neutrality
 - predictive value and feedback value
- D 15. Which qualitative characteristic is an ingredient of reliability?
- predictive value
 - feedback value
 - timeliness
 - neutrality
- B 16. According to *Statement of Financial Accounting Concepts No. 2*, verifiability is an ingredient of:
- comparability
 - reliability
 - representational faithfulness
 - relevance
- A 17. In order to be relevant, accounting information should have:
- timeliness
 - verifiability
 - neutrality
 - representational faithfulness
- B 18. Which of the following qualitative characteristics may have to be sacrificed in order to achieve timeliness?
- relevance
 - reliability
 - comparability
 - predictive value
- D 19. *Statement of Financial Accounting Concepts No. 2* lists representational faithfulness as a component of
- | | <u>Relevance</u> | <u>Reliability</u> |
|----|------------------|--------------------|
| a. | No | No |
| b. | Yes | No |
| c. | Yes | Yes |
| d. | No | Yes |
- C 20. Which of the following are considered secondary characteristics of accounting information?
- verifiability and feedback value
 - predictive value, and timeliness
 - comparability and consistency
 - representational faithfulness and neutrality

- D 21. Two constraints mentioned by the FASB in *Statement of Financial Accounting Concepts No. 2* on qualitative characteristics are:
- a. understandability and decision usefulness
 - b. comparability and consistency
 - c. relevance and reliability
 - d. benefits greater than costs and materiality
- C 22. Which of the following items would be a violation of materiality?
- a. a company did not separately report an unusual gain of \$50,000. Its income from operations was \$5,000,000
 - b. a company expensed the purchase of pencil sharpeners that have an estimated useful life of three years
 - c. a \$25,000 illegal bribe to a foreign official was not separately disclosed in the annual report
 - d. a \$5,000 expenditure to improve a building that originally cost \$5,000,000 was expensed
- B 23. Intracompany comparability would be violated if:
- a. a company used LIFO as its inventory cost method while other companies in the same industry used FIFO
 - b. a company changed its bad debts expense estimate from one percent to two percent
 - c. a bank did not classify its assets as current assets and noncurrent assets
 - d. a company expenses all expenditures of less than \$500 even if the expenditures results in probable future economic benefit

ACCOUNTING ASSUMPTIONS AND CONVENTIONS

- B 24. Which is not one of the four recognition criteria identified in *Statement of Financial Accounting Concepts No. 5*?
- a. reliable
 - b. understandable
 - c. meets the definition of an element
 - d. measurable
- B 25. All of the following items are classified as accounting assumptions and conventions except for:
- a. going concern
 - b. timeliness
 - c. monetary unit
 - d. entity
- A 26. The city of Fairbanks donated land to the Big Oil Company on June 1, 1999, that originally cost the City \$900,000. On June 1, 1999, the land was estimated to be worth \$1,250,000, and on December 31, 1999, the land's value was estimated to be \$1,300,000. On Big Oil Company's balance sheet at December 31, 1999, the land should be valued at:
- a. \$1,250,000
 - b. \$1,300,000
 - c. \$ 900,000
 - d. \$ 0

- C 27. According to the recognition criteria established for revenue, revenue is normally recognized:
- a. during production
 - b. at the completion of production
 - c. at the point of sale
 - d. when the cash is received from the customer
- A 28. For fixed-price construction contracts that require more than one accounting period to complete and for which the costs can be reasonably estimated, revenue should be recognized:
- a. during production
 - b. at the completion of production
 - c. when title to the project is transferred to the buyer
 - d. when the cash is received from the buyer
- D 29. If collectibility of the revenue is *highly uncertain*, an appropriate method that should be used to recognize revenue would be:
- a. the percentage-of-completion method
 - b. at the point of sale
 - c. the proportional performance method
 - d. the installment method
- B 30. Using the straight-line method to amortize goodwill is an application of expense recognition using:
- a. association of cause and effect
 - b. a systematic and rational allocation method
 - c. immediate recognition
 - d. the percentage-of-completion method
- C 31. Using an allowance method of accounting to recognize uncollectible accounts receivable is an application of which accounting convention?
- a. revenue recognition
 - b. historical cost
 - c. matching principle
 - d. period of time
- A 32. The state legislature is currently debating a bill which, if passed, would require the Sandiken Company to go out of business. Which of the following principles or assumptions related to the preparation of Sandiken's financial statements is most directly affected by this impending vote of the legislature?
- a. going concern assumption
 - b. verifiability principle
 - c. entity concept
 - d. materiality concept
- B 33. Under current GAAP, most resources of a business entity are to be valued in its financial statements at:
- a. a value that is most relevant to the needs of users of the financial statements
 - b. historical cost
 - c. the current cost of replacing the resource
 - d. current appraisal values

- C 34. Revenue may be recognized by an entity at the completion of production during an accounting period:
- a. only if full payment was received from the buyer before production began
 - b. when no specific point of sale can be identified
 - c. when there is a fixed selling price, and there are no limitations on the amount that can be sold
 - d. when collectibility is highly uncertain
- B 35. Which of the following statements is true?
- a. under the entity assumption, a company is considered an extension of its owners
 - b. usually revenue is recognized at the point of sale
 - c. under the monetary-unit assumption, supplementary disclosure of changes in the purchasing power of the dollar is required
 - d. the continuity assumption should be followed for financial statements of an entity that appears to be verging on bankruptcy
- D 36. Which of the following is not one of the four fundamental recognition criteria?
- a. an item must meet the definition of an element
 - b. an item must be measurable
 - c. an item must be relevant
 - d. an item must be earned
- D 37. Solon Corporation has adopted the policy of charging to expense at the time of purchase all assets having a cost of less than \$100, regardless of the life expectancy of the asset. This policy is most closely related to the:
- a. historical cost principle
 - b. period of time assumption
 - c. verifiability principle
 - d. materiality principle
- B 38. A company that uses different accounting methods in preparing its tax returns as compared to the accounting methods used to prepare its financial statements is:
- a. in violation of the consistency principle
 - b. probably violating neither the income tax laws nor generally accepted accounting principles
 - c. probably guilty of tax evasion
 - d. in violation of the relevance assumption
- D 39. Of the following reporting assumptions or reporting principles, the one most widely criticized is the:
- a. consistency principle
 - b. full-disclosure principle
 - c. entity assumption
 - d. historical cost principle
- C 40. Which one of the following assumptions or principles most logically supports the preparation of a single set of consolidated financial statements that combines the financial information of several wholly owned but separately identifiable businesses?
- a. historical cost
 - b. industry practices
 - c. entity
 - d. materiality

- B 41. Expenses are recognized and matched against revenues on the basis of three principles. Which is *not* one of these principles?
- a. immediate recognition
 - b. associating cash flows
 - c. systematic and rational allocation
 - d. associating cause and effect
- D 42. Which of the following sets includes only accounting assumptions and conventions?
- a. timeliness, prudence, historical cost, and neutrality
 - b. matching, comparability, period of time, and reliability
 - c. monetary unit, going concern, relevance, and materiality
 - d. monetary unit, entity, continuity, and realization-recognition

GAAP AND FINANCIAL STATEMENTS

- A 43. Which of the following transactions would be reported in the cash flows from investing activities section in the statement of cash flows for the Haleem Company?
- a. Haleem sold a piece of land for \$500,000
 - b. Haleem borrowed \$2,000,000
 - c. Haleem issued common stock for \$800,000 to investors
 - d. Haleem paid a cash dividend to its stockholders
- A 44. Distributions that are paid to owners would affect both the:
- a. balance sheet and statement of cash flows
 - b. balance sheet and income statement
 - c. income statement and statement of changes in equity
 - d. income statement and statement of cash flows
- A 45. The financial statement that would be most useful in evaluating a company's financial flexibility is the
- a. balance sheet
 - b. income statement
 - c. statement of owners' equity
 - d. statement of retained earnings

MODEL OF BUSINESS REPORTING

- B 46. The framework for the model of business reporting includes all of the following, except:
- a. financial and nonfinancial data
 - b. independent analysis of the financial data
 - c. forward-looking information
 - d. information about management and shareholders
- D 47. The AICPA's Special Committee on Financial Reporting issued a report on a model for business reporting that addresses concerns about:
- a. the reliability and flexibility of financial reports
 - b. the relevance and timeliness of financial reports
 - c. the verifiability and neutrality of financial reports
 - d. the relevance and usefulness of financial reports

- D 48. The model for business reporting is designed to fit the decision processes of users to:
- make projections
 - value companies
 - assess the likelihood of loan repayments
 - do all of the above

PROBLEMS

49.

A list of statements follows:

- FASB Statement of Financial Accounting Concepts No. 1* identifies the _____ of financial reporting.
- Financial reporting should, above all, provide information that is _____ to external decision makers.
- Financial reporting should provide information about how management has discharged its _____ for the resources entrusted to it.

Required:

Fill in the words necessary to complete the statements.

SOLUTION:

- objectives
- useful
- stewardship responsibility

50.

A list of statements follows:

- In *Statement of Financial Accounting Concepts No. 2*, the FASB stated that the two primary qualitative characteristics that make accounting information useful for decision making purposes are _____ and _____.
- Corporations prepare quarterly financial statements in order to satisfy the _____ element of relevance.
- Expensing the purchase of waste paper baskets that have a three-year estimated useful life at the date of acquisition is a permissible procedure according to the _____ constraint.
- The three components of reliability are _____, _____, and _____.
- _____ is the overall qualitative characteristic to be used in judging the quality of accounting information.

Required:

Fill in the words necessary to complete the statements.

SOLUTION:

- relevance, reliability
- timeliness
- materiality
- verifiability, neutrality, representational faithfulness
- Decision usefulness