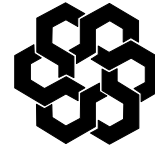




Financial Accounting
Standards Board

401 Merritt 7, PO Box 5116, Norwalk, CT 06856,
USA
Tel: +1 203 847 0700
Fax: +1 203 849 9714
Website: www.fasb.org



International
Accounting Standards
Board

30 Cannon Street, London EC4M 6XH,
United Kingdom
Tel: +44 (0)20 7246 6410
Fax: +44 (0)20 7246 6411
Website: www.iasb.org

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These notes are based on the staff papers prepared for the IASB and FASB. Paragraph numbers correspond to paragraph numbers used in the joint IASB-FASB papers.

However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IASB/FASB Meeting: 23 October 2006, Norwalk
Project: Conceptual Framework
Subject: Measurement 2B: Historical Measurement Bases
(Agenda Paper 2E; FASB Memorandum 40)

PURPOSE OF MEMO

1. The purpose of this memo is to (1) label and define all measurement bases associated with historical cost, (2) provide clear examples of each basis, and (3) classify these bases according to their relationship to price or value, as well as their time frame orientation.
2. To craft the labels, definitions, and examples for this memo, the staff considered a number of sources, including the conceptual frameworks of standard setters in Australia, Canada, New Zealand, the United Kingdom, and the United States. The staff also considered the FASB discussion memorandum, *Conceptual Framework for*

Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement (FASB 1976) and the IASB discussion paper, *Measurement Bases for Financial Accounting – Measurement on Initial Recognition* (IASB 2005). Finally, the staff considered a few studies and academic reports related to measurement bases.

HISTORICAL MEASUREMENT BASES

3. Although frequently used, the historical cost label itself rarely indicates the particular costs to which it refers. [Portion omitted from Observer Notes]
4. The existing definitions of historical cost in the FASB's and IASB's conceptual frameworks and in the IASB's discussion paper on measurement bases (IASB 2005) do not distinguish between these costs. For assets, historical cost is defined as:

The amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for amortization or other allocations (SFAC No. 5, par. 67(a)).

The amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition (IASB Framework, par. 100(a)).

The fair value of the consideration given to acquire an asset at the time of its acquisition (IASB DP, par. 77).

5. For liabilities, the parallel term to historical costs is *historical proceeds*, which is defined as,

The amount of cash, or its equivalent, received when the obligation was incurred, and may be adjusted after acquisition for amortization or other allocations (SFAC No. 5, par. 67(a)).

The amount of proceeds received in exchange for the obligation... (IASB Framework, par. 100(a)).

The fair value of the consideration received in exchange for incurring the obligation at the time it was incurred (IASB DP, par. 77).

6. As is the case with the term *historical cost*, the term *historical proceeds* is somewhat vague. It is not clear whether the historical proceeds of a liability is a gross notion (representing the base amount of liability incurred or face amount of debt issued, for example), or whether it is a net notion (representing a base or face amount less transaction fees or other amounts paid when obtaining a loan or issuing a debt instrument, for example).
7. None of the definitions of historical cost or historical proceeds clarifies which of the many costs mentioned above are actually included in the historical cost of an asset or the historical proceeds of a liability.¹ [Portion omitted from Observer Notes]. As a result, the term historical cost on its own is quite indeterminate and potentially confusing in any discussion of the merits of various measurement bases.
8. This section labels, defines, and provides examples of measurement bases associated with historical costs. It also classifies each of these bases in terms of: (1) the time frame to which the measurement basis refers, and (2) the relationship of the basis to the economic notions of price or value. [Portion omitted from Observer Notes].

Past Entry Price

9. The first basis is *past entry price*. For assets, this basis is defined as:

The net amount of cash or cash equivalents paid or the cash equivalent amount of other consideration given in exchange for an asset, ignoring any amounts paid for transaction-related goods or services.

For liabilities, this basis (*past entry proceeds*) is defined as:

The net amount of cash or cash equivalents received or the cash equivalent amount of other consideration received in exchange for incurring a liability, before deducting any fees or amounts paid for transaction-related goods or services.

¹ SFAS No. 34, *Capitalization of Interest Costs* (FASB 1979) provides a more explicit definition of historic cost, indicating that it includes “the costs necessarily incurred to bring it to the condition and location necessary for its intended use” (par. 6). This definition is consistent with the staff’s notion of past gross entry price, described later in this memo.

10. Past entry price, sometimes referred to as historical exchange price, is the most basic of all historical measurement bases. Its distinguishing characteristic is that it includes only the transacted price of the acquired asset or liability while ignoring all other prices for goods and services associated with the acquisition, including shipping charges, sales tax, commissions, document preparation fees, legal fees, and prices paid to install or otherwise make ready for use. The label “past entry price” is used to signal that this basis is nothing more than an “entry price” (as described in Measurement Paper 2A, paragraph 14) that was transacted in the past to acquire an asset presently owned by an entity.
11. As suggested by its label, past entry price refers to a past time frame. The actual inputs for this measurement basis are often taken from transaction documents or electronic records such as invoices. As also suggested by its label, past entry price is a price, not a value. It represents a monetary amount at which two market participants exchanged an asset or liability in a past transaction, or the cash equivalent amount of non-cash consideration actually given or received in exchange for the asset or liability.
12. There are a number of situations in which a past entry price is reported in financial statements today. [Portion omitted from Observer Notes]
13. [Paragraph omitted from Observer Notes].
14. [Paragraph omitted from Observer Notes].
15. None of these examples represents a situation in which an accounting standard requires that **only** the past entry price be recorded while amounts paid for all other transaction-related goods or services be immediately expensed. Instead, these examples simply do not have any transaction-related goods or services associated with them. As a result, a past entry price is all that can be recorded for the asset or liability. The staff makes this point to clarify that no current accounting standard prescribes past entry price as a measurement basis.

Past Gross Entry Price

16. The next basis is *past gross entry price*. For assets, this basis is defined as:

The net amount of cash or cash equivalents paid or the cash equivalent amount of other consideration given in exchange for an asset, including those amounts paid for transaction-related goods or services.

For liabilities, this basis (*past gross entry proceeds*) is defined as:

The net amount of cash or cash equivalents received or the cash equivalent amount of other consideration received in exchange for incurring a liability, after deducting any fees or amounts paid for transaction-related goods or services.

17. The distinguishing characteristic of this basis is that it includes the prices of all goods and services directly related to the acquisition of an asset or liability, including those thought by some to be entity-specific, such as installation and preparation for use. The label “past gross entry price” is used to signal that this basis is nothing more than a “gross entry price” (as described in Measurement Paper 2A, paragraphs 24 and 30)) that was transacted in the past to acquire an asset presently owned by an entity.

18. As its label suggests, the past gross entry price basis refers to a past time frame. The actual inputs for this measurement basis are often taken from transaction documents or electronic records such as an invoice. The past gross entry price basis is also a price, not a value. It represents a monetary amount for which two market participants actually exchanged an asset or liability, along with any amounts paid for transaction-related goods or services.

19. Examples of past gross entry price are common in financial statements today. [Portion omitted from Observer Notes]

20. [Paragraph omitted from Observer Notes].

21. [Portion omitted from Observer Notes] The staff thinks the investment value label is equivalent to past gross entry price as defined in this section. It represents the price

paid for an investment plus all amounts paid for trading related services, such as broker commissions.

Accumulated past (gross) entry price

22. The next historical measurement basis is *accumulated past (gross) entry price*. For assets, this basis is defined as:

The sum of all amounts of cash or cash equivalents paid or the cash equivalent amount of other consideration given to construct or assemble an asset over an extended period of time, including those amounts paid or given for transaction-related goods or services.

For liabilities, this basis is defined as:

The amount of cash or cash equivalents received over a period of time in exchange for incurring multiple obligations or incrementally increasing an existing liability over an extended period of time.

23. The distinguishing characteristic of this basis is that it captures the prices paid in multiple transactions and accumulates them into one item over an extended period of time. The accumulated price basis results from a **many-to-one allocation**. The accumulated price basis differs from past gross entry price and past entry price in that the inputs for accumulated past entry price are captured from multiple transactions that occur over an extended period of time rather than from multiple transactions (e.g., purchase of item, transportation, taxes, etc.) that occur over a very short period of time, usually hours or days only.

24. [Paragraph omitted from Observer Notes].

25. [Paragraph omitted from Observer Notes].

26. The accumulated past entry price basis represents the accumulation of multiple price-based transactions. However, that accumulated basis cannot be said to represent a single price for the resulting asset or liability because that one aggregated amount does not represent a monetary amount for which market participants actually

exchanged the corresponding asset or liability. Nor is it likely that the accumulated basis represents the economic value of the asset or liability to the entity at a measurement date because some parts of the accumulated price are out of date, even when the asset is initially recorded. Regarding time frame, this basis clearly refers to the past by reporting an accumulation of past prices.

Allocated past (gross) entry price

27. The next historical measurement basis is *allocated past (gross) entry price*. For both assets and liabilities, this basis is defined as:

The amount arrived at by allocating a past entry price or past gross entry price to multiple assets or liabilities.

28. A transaction price is often allocated to the assets and liabilities related to or encompassed by that transaction. [Portion omitted from Observer Notes]. To assign amounts to those assets and liabilities, the basket purchase price must be allocated to all identifiable assets and liabilities. [Portion omitted from Observer Notes]. The amounts assigned to individual assets and liabilities do not represent a price at which the individual assets and liabilities were transacted because the transaction itself is negotiated at a level which combines multiple assets and liabilities.

29. [Paragraph omitted from Observer Notes].

30. The allocated price basis differs from the accumulated price basis in that the price from one transaction is being allocated to the multiple assets and liabilities encompassed by that transaction. With the accumulated basis, the prices of multiple transactions are being accumulated into one item over an extended period of time. The allocated price basis results from a **one-to-many allocation** while an accumulated price basis results from a **many-to-one allocation**.

31. Despite this difference, the allocated price basis and accumulated price basis are similar in an important way. Like accumulated prices, an allocated price is **not** a price itself. Once a transaction price is allocated to constituent assets and liabilities, that

allocated amount no longer represents a price. It is not a monetary amount for which market participants actually exchanged the asset or liability. Instead, it is simply the allocation of a transaction price to the multiple assets and/or liabilities encompassed by that transaction. Like an accumulated price basis, the allocated price basis cannot look to a past transaction for a precise determination of its price.

32. Although allocated past entry price is **not** a price itself, it is also **not** a value. It does not represent a subjective economic valuation or utility to the company, except by coincidence. As its label suggests, the time frame of allocated past entry price refers to the past. The basis is meant to report an aspect of the asset or liability that pertains to the past.

Amortized/Depreciated Price

33. The next basis is *amortized/depreciated price*, sometimes referred to as unexpired cost. For both assets and liabilities, this basis is defined as:

The amount of originally recorded price that remains after assigning some of that price to intervening accounting periods according to an accounting rule for amortization or depreciation.

34. This basis reflects the portion of the originally recorded price (which may be any of the bases previously discussed in this paper) that has not yet been assigned to an intervening period through a systematic depreciation or amortization process. When assigned to an intervening period, these originally recorded amounts may appear as an expense (in the case of long-lived assets or a discount on bond indebtedness), a reduction of an expense (in the case of a premium on bond indebtedness), a revenue (in the case of a discount on a bond investment), or a reduction of a revenue (in the case of a premium on a bond investment).
35. It is important to distinguish the amortized/depreciated price basis from the allocated price basis. With the allocated basis, the past entry price or past gross entry price of a transaction is allocated to multiple assets or liabilities related to or encompassed by that transaction. With the amortized/depreciated price basis, the amount originally

recorded for an asset or liability is assigned to subsequent accounting periods as an expense or revenue (or reductions thereto). In this sense, the allocated basis and the amortized/depreciated basis are not the same, even though the word “allocate” is often used to describe the process whereby the price of an asset is assigned to subsequent periods. In short, the distinction between the two bases is simply that one allocates prices to particular assets and liabilities while the other allocates (or assigns) prices to particular periods.

36. [Paragraph omitted from Observer Notes].

37. [Paragraph omitted from Observer Notes].

38. Although this basis is almost always associated with historical measurement bases, the basis actually refers to the past, present, and future. The price originally recorded for an asset obviously refers to a past time frame. However, the forecasted useful life of (for example) a depreciable asset refers to the asset’s future time frame. Moreover, the forecasted residual price of an asset may refer to the future time frame (for example, ARB 43, Chapter 9) or the present time frame (for example, IAS 16 par. 6 and IAS 38, par 8). In this sense, the time frame orientation of amortized/depreciated price can refer to all three time frames—the past, present, and future.

39. Amortized/depreciated price does **not** represent a price or an economic value. Once any amount of price originally recorded is amortized or depreciated, the resulting basis no longer represents a price—a monetary amount for which two market participants actually exchanged an asset or liability. Nor does the resulting basis represent a value in the sense of an entity-specific expression of economic worth. Even if the amortization/ depreciation method corresponds closely to the actual pattern of diminution of economic worth of the asset, the resulting amortized/depreciated price would not necessarily represent a price (such as a current exit price for that asset) or a value.

Combined Price

40. The next historical basis is *combined price*. For assets and liabilities, this basis is defined as:

The amount arrived at through the combination of two or more of the following historical bases: past (gross) entry price, accumulated (gross) entry price, allocated price, or depreciated/amortized price.

41. This basis is purposefully distinguished from those preceding it to acknowledge that there are instances where two or more of the prior bases are used in conjunction with one asset or liability. [Portion omitted from Observer Notes].

42. [Paragraph omitted from Observer Notes].

43. The combined price basis does not represent a price because the combination of two or more other historical price bases does not represent a monetary amount for which two market participants exchanged the corresponding asset or liability (except by coincidence). Nor does the combined price basis represent an economic value, because its components do not all represent economic values. Because the combined price basis can be composed of two or more other historical measurement bases, and one or more of these bases may focus on the past, present, or future, the time frame orientation of the combined price basis can also focus on the past, present, or future.

MISCELLANEOUS MEASUREMENT CONVENTIONS

44. Present financial statements report a number of items for which no conceptual measurement basis seems to exist. Instead, the accounting standards for such items prescribe a computation or calculation that often depends on other measured assets and liabilities within the financial statements.

45. [Paragraph omitted from Observer Notes].

46. Whether such mechanical computations should be defined as measurement bases is debatable. At this point in the measurement phase, the staff is taking a broad approach, considering both present practice and current proposals for measurement

bases. At some later time, it is likely that some items will be eliminated from further consideration or evaluation.

ASSET AND LIABILITY DIFFERENCES

47. Before concluding, it is worth noting that most (if not all) assets can be associated with the historical measurement bases presented in this paper. In contrast, many liabilities recognized in financial statements do not fit neatly into any one of these historical bases. [Portion omitted from Observer Notes]. The fact that some liabilities do not fit neatly into the historical measurement bases of this paper perhaps only highlights that to measure something historically, a prior transaction with an observable price must have occurred.

SUMMARY

48. [Portion omitted from Observer Notes]. Exhibit A at the end of this memo summarizes these property descriptions for each basis. Exhibit B provides a graphic representation of all the historical measurement bases.

EXHIBIT A:

49. This exhibit lists each historical measurement basis described in this memo and indicates whether the basis represents a price, value, or neither and whether the basis refers to a past, present, or future time frame.

Measurement Basis	Price/Value Concept			Time Frame		
	Price	Value	Neither	Past	Present	Future
<p><i>Past entry price</i></p> <p>Assets: The net amount of cash or cash equivalents paid or the cash equivalent amount of other consideration given in exchange for an asset, <u>ignoring</u> any amounts paid for transaction-related goods or services.</p> <p>Liabilities: The net amount of cash or cash equivalents received or the cash equivalent amount of other consideration received in exchange for incurring a liability, <u>before</u> deducting any fees or amounts paid for transaction-related goods or services.</p>	✓			✓		
<p><i>Past gross entry price</i></p> <p>Assets: The net amount of cash or cash equivalents paid or the cash equivalent amount of other consideration given in exchange for an asset, <u>including</u> those amounts paid for transaction-related goods or services.</p> <p>Liabilities: The net amount of cash or cash equivalents received or the cash equivalent amount of other consideration received in exchange for incurring a liability, <u>after</u> deducting any fees or amounts paid for transaction-related goods or services.</p>	✓			✓		
<p><i>Accumulated past (gross) entry price</i></p> <p>Assets: The sum of all amounts of cash or cash equivalents paid or the cash equivalent amount of other consideration given to construct or assemble an asset over an</p>			✓	✓		

Measurement Basis	Price/Value Concept			Time Frame		
	Price	Value	Neither	Past	Present	Future
<p>extended period of time, including those amounts paid or given for transaction-related goods or services.</p> <p>Liabilities: The amount of cash or cash equivalents received over a period of time in exchange for incurring multiple obligations or incrementally increasing an existing liability over an extended period of time.</p>						
<p><i>Allocated past (gross) entry price</i></p> <p>Assets and Liabilities: The amount arrived at by allocating a past entry price or past gross entry price to multiple assets or liabilities.</p>			✓	✓		
<p><i>Amortized/depreciated price</i></p> <p>Assets and Liabilities: The amount of originally recorded price that remains after assigning some of that price to intervening accounting periods according to an accounting rule for amortization or depreciation.</p>			✓	✓	✓	✓
<p><i>Combined price</i></p> <p>Assets and Liabilities: The amount arrived at through the combination of two or more of the following historical bases: past (gross) entry price, accumulated (gross) entry price, allocated price, or depreciated/amortized price.</p>			✓	✓	✓	✓

EXHIBIT B:

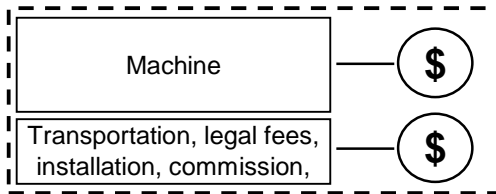
50. This exhibit provides a graphical depiction of the measurement bases in this memo.

(1) Past entry price



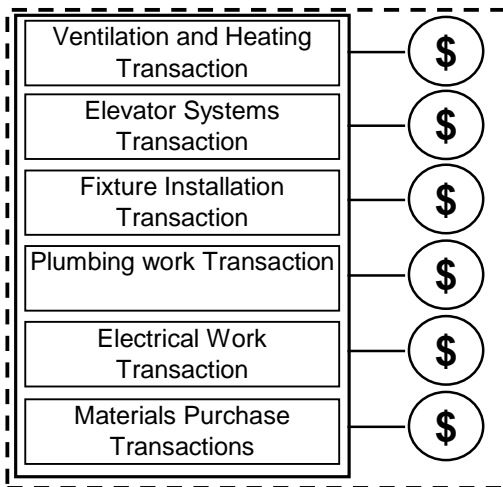
Ignores prices paid for transaction-related goods and services, such as transportation, legal fees, installation, etc.

(2) Past gross entry price



Includes prices paid for transaction-related goods and services, such as transportation, legal fees, installation, etc.

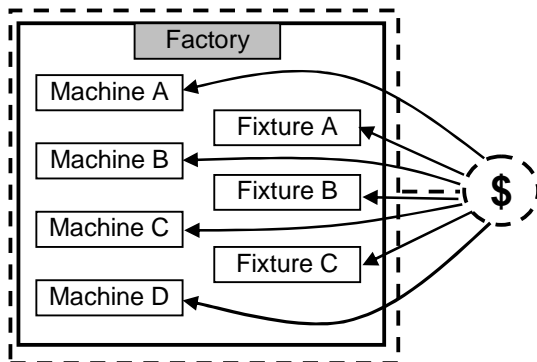
(3) Accumulated past (gross) entry price



This basis is an accumulation of multiple transaction prices over an extended period of time.

The total of these transaction prices is not likely to equal what a company would pay to purchase the building in its completed form (which would be recorded at a past entry price or past gross entry price).

(4) Allocated past (gross) entry price

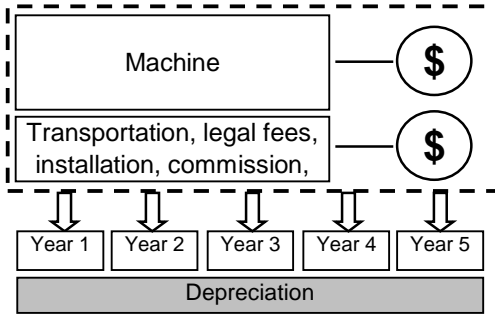


This basis allocates a past (gross) entry price to multiple assets and liabilities encompassed by the transaction.

The price is typically negotiated at the "bundle" level (in this case, the factory level) so the transaction price gives no precise indication of the amount that was paid on an asset-by-asset basis.

The allocation itself is not a price.

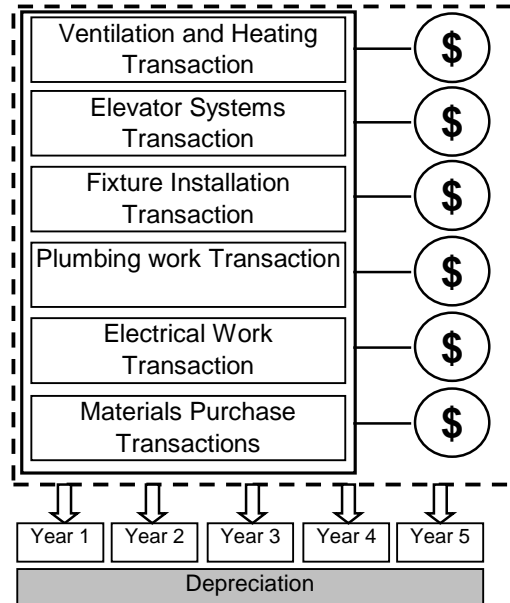
(5) Amortized/Depreciated Price



The original basis (any of the above) is assigned to accounting periods based on some systematic depreciation or amortization method.

The amount assigned to a period is not a price itself, but is a carve out of the original basis, which could be any of the above bases. What remains after any amortization or depreciation is no longer a price either.

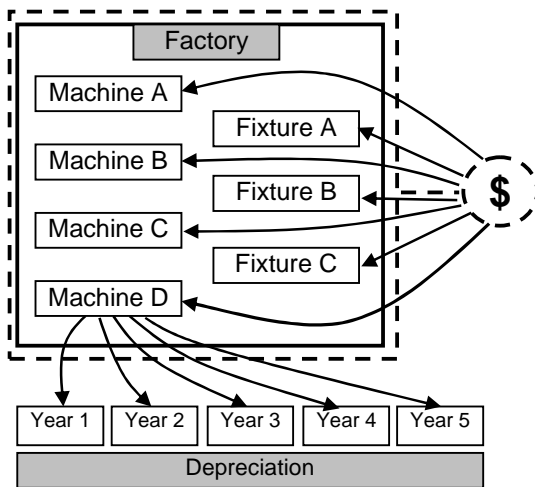
(6a) Combined price (accumulated basis and depreciated basis)



The combined price basis is the combination of any two of the above measurement bases. It is not a price itself.

This first example combines the accumulated past entry price basis with the amortized/depreciated price basis.

(6b) Combined price (allocated basis and depreciated basis)



This second example combines the allocated price basis with the amortized/depreciated price basis.