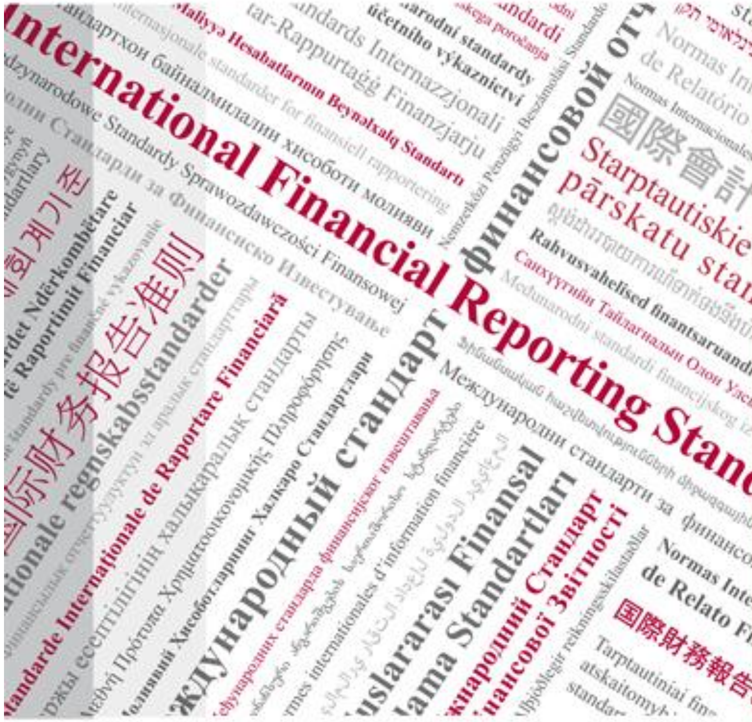
December 2012

International Financial Reporting Standards



Conceptual Framework: Measurement

Agenda paper 3A

Education Session – December 2012

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

How does measurement affect the financial statements?

- Affects both:
  - Statement of financial position
  - Performance statements
- The effect on the performance statements arises:
  - On initial recognition (possibly)
  - On remeasurement (income or expense equals the difference between old measure and new measure)
  - On consumption, satisfaction of performance obligation etc…
  - On derecognition
- In the past:
  - OCI has been used as a “bridge” between different measures (eg fair value and cost)

What are the problems with measurement?

Existing *Framework* says little about measurement

One measurement basis or many?

When should different measurement bases be used?

What are the different measurement bases?

Should initial and subsequent measurement be the same?

How can we address these problems?

- In selecting which measures we use, we must consider:

Objective

Measure selected must inform users about:
- Entity's resources and obligations
- Effect of transactions and other events on the resources and obligations
- How effectively and efficiently management has discharged their responsibilities

Qualitative Characteristics

Measure selected must be:
- Relevant
- Faithfully represent what it purports to represent

Usefulness is enhanced if:
- Comparable
- Verifiable
- Timely
- Understandable

Cost/Benefit

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One measurement basis or many?

- Advantages of using a single measurement basis:
  - Increased comparability
  - Internal consistency (no accounting mismatches)
  - Totals and subtotals are more likely to have meaning
- Single measurement basis could be a current value or cost. However:
  - Cost unlikely to be relevant in all circumstances (eg derivatives)
  - Current value may not be most relevant if intention is to use
  - Cost/benefit considerations

One measurement basis or many?

- A mixed measurement model allows us:
  - to pick the most relevant measure for what we are trying to represent
  - Consider cost/benefit

A single measurement basis is unlikely to provide the most relevant information in all circumstances

What are the different measurement bases?

Three main categories

Cost-based	Current	Mixed

Cost-based measures

	Asset	Liability
Initial measurement	Cash paid (or the fair value of other consideration)	Cash received (or fair value of other consideration)
Subsequent measurement	Reduce cost as asset consumed	Reduce as obligation is satisfied
Additional considerations	Impairment	Liability adequacy (onerous test)

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Current measures

Examples:

	Entry price	Neutral	Exit price
Market participant view	Replacement cost	Fair value	Fair value less cost to sell
Entity-specific view	Replacement cost	Value in use	Net realisable value

- Measure selected will depend on:
  - Relevance (eg entity-specific may be more relevant if unlikely to sell)
  - Availability of information
  - Cost/benefit

Mixed measures

- Mixed measures use current values for some (but not all) aspects of the item being measured

Example	Current	Fixed
Amortised cost	Current estimates of cash flows	Discount rate is fixed
Fair value hedge accounting	Update fair value for changes arising from the hedged risk	Do not update for changes in fair value arising from other factors

When might each measure be used?

Measure	Examples when it might be relevant
Cost-based	• When consumption of service potential is relevant (eg machines used in production) • Items used in combination with other resources to produce goods and services (eg production line) • When other measures are not verifiable (eg some intangibles) • When items are expected to be sold in a retail market (as opposed to a broker/dealer market) • When costs associated with current measurement outweigh the benefits • When it reduces or eliminates an accounting mismatch

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When might each measure be used?

Measure	Examples when it might be relevant
Current	• Assets that generate cash flows independently from other assets (eg financial instruments) • Assets that an entity expects to sell (eg investment properties) • When items are sold in a dealer market (eg traded commodities) • Items whose value is expected to change significantly (consumer biological assets, insurance liabilities) • When it reduces or eliminates an accounting mismatch

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When might each measure be used?

Measure	Examples when it might be relevant
Mixed	• When one aspect of an item is less relevant than other aspects (eg interest rates on debt instruments if business model is to collect contractual cash flows) • When it reduces or eliminates an accounting mismatch

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Should initial and subsequent measurement be the same?

- Unless initial and subsequent measurement are the same, a gain or loss will arise on subsequent measurement
- Gain or loss only arises because of accounting (it is not a real-world event)
- Such a gain or loss is not relevant

Initial and subsequent measurement should be the same

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Other measurement issues

- What should the *Conceptual Framework* say about capital maintenance?
  - Concept is needed when dealing with hyperinflation
  - May underpin the IAS 16 revaluation model
- Are the following measurement techniques:
  - Recoverable amount
  - Deprival value?
- What should the *Conceptual Framework* say about:
  - Use of expected values
  - The time values of money
  - Risk adjustments?

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