

STAFF PAPER

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Project	Conceptual Framework		
Paper topic	Factors specific to initial measurement—illustrative drafting		
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This paper presents in mark-up form an illustration of how the paragraphs relevant to initial measurement might be revised to reflect the staff recommendations in Agenda Paper 10B.

Paragraph numbers as used in the Exposure Draft have been retained. Text that has been moved has not been marked.

Chapter 6—Measurement (paragraphs relevant to initial measurement)

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6.11 ~~The assets acquired and the liabilities incurred in transactions that involve no exchange do not have a readily identifiable initial cost. In such cases, current values are sometimes used as a proxy for cost (deemed cost) on initial measurement and that deemed cost is then used as a starting point for subsequent measurement.~~

6.11 In some cases, it may not be possible to readily identify a cost for an asset or liability, or the cost may not faithfully represent the asset or liability. This may be the case when assets are acquired, or liabilities are incurred as a result of an event other than a transaction on arm's-length terms, or where assets or liabilities are exchanged. In such cases, a current value is sometimes used as a proxy for cost (deemed cost) on initial measurement and that deemed cost is then used as a starting point for subsequent measurement. In such a circumstance, it may be necessary to confirm that the deemed cost of the asset is recoverable (or that the amount of the liability is not greater than its deemed cost).

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6.52 Paragraphs ~~6.53XX–6.63XX~~ *[not in this draft]* discuss the factors to be considered in selecting a measurement basis by reference to the qualitative characteristics of useful financial information. Paragraphs 6.64–6.73 discuss additional factors to consider in selecting a measurement basis on initial recognition. Initial measurement and subsequent measurement ~~cannot be considered separately~~ should be considered together. If the initial measurement basis and subsequent measurement basis are not consistent, income and expenses will be recognised solely because of the change in measurement basis. Recognising such income or expenses might appear to depict a transaction or other event when, in fact, no such transaction or event has occurred. Hence, the choice of measurement basis for an asset or a liability and the related income or expenses is determined by considering both the initial measurement and the subsequent measurement.

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Factors specific to initial measurement

- 6.64 Paragraphs 6.48–6.63 discuss factors to consider when selecting a measurement basis, whether at initial recognition or subsequently. The following paragraphs discuss some additional factors to consider solely at initial recognition.
- 6.65 Assets and liabilities may be recognised initially as a result of:
- (a) ~~exchanges of items of similar value~~ transactions on arm's-length terms (see paragraphs 6.66–6.68); or
 - (b) ~~transactions with holders of equity claims~~ (see paragraph 6.69);
 - (c) an event other than a transaction on arm's-length terms ~~exchanges of items of different value~~ (see paragraphs 6.70–6.71); or
 - (d) ~~internal construction of an asset~~ (see paragraphs 6.72–6.73).

Exchanges of items of similar value Transactions on arm's-length terms

- 6.67 At initial recognition, the cost of an asset acquired or a liability incurred in a transaction on arm's-length terms is normally similar to its fair value at that date, except if transaction costs are material. Nevertheless, even if those two amounts are similar, it is necessary to describe what measurement basis is used at initial recognition. If historical cost will be used subsequently, that basis is also normally appropriate at initial recognition. Similarly, if a current value will be used subsequently, it is also normally appropriate at initial measurement, thus avoiding an unnecessary change at the first subsequent measurement (see paragraph 6.63). *[Not in this draft.]*
- ~~6.66~~ ~~An exchange of items of similar value might occur:~~
- ~~(a) 6.66A~~ ~~When an entity acquires an asset in exchange for incurring a liability in a transaction on arm's-length terms, the asset and the liability are normally measured initially at the same amount. Thus, no income or expenses are recognised as a result of that transaction, except when the transaction costs are not included in the initial measure of the asset or the liability.~~
 - ~~(b) 6.66B~~ ~~When an entity acquires an asset, or incurs a liability, in exchange for transferring another asset or liability in a transaction on arm's-length terms, the initial measure of the asset acquired (or the liability incurred) determines whether any income or expenses arise on the transfer of the other asset or the liability from the transaction. As noted in paragraph 6.11, a current value may be used in as a proxy for cost (deemed cost) which is then used as the starting point for subsequent measurement. 6.68 — In some cases, the initial measure carrying amount of one of the items exchanged transferred may need to be used as the deemed cost of the other item acquired or incurred. Paragraph 6.11 discusses deemed cost.~~

Transactions with holders of equity claims

- 6.69 If ~~in a transaction on arm's-length terms with~~ entity receives an asset from a holder of an existing or new equity claim, it would normally be appropriate:
- (a) to measure ~~the any~~ asset received or liability incurred initially at a current value. If the asset or liability will be measured subsequently at historical cost, the current value would form the deemed cost of the asset at that date.
 - (b) to recognise a contribution from or a distribution to the holders of equity claims, after deducting the current value of consideration provided ~~to them, if any~~.

Assets acquired and liabilities incurred from an event other than a transaction on arm's-length terms

Exchanges of items of different values

- ~~6.70~~ ~~Sometimes, two items of different value are exchanged; for example, because the transaction price is affected by relationships between the parties or by financial distress or other duress of one of the parties. In such cases, measuring the asset acquired, or the liability incurred, at historical cost may not faithfully represent income or expenses (for example, a loss arising from an overpayment or a gain arising from a bargain purchase).~~

6.71 ~~On other occasions, an asset is acquired, or a liability is incurred, for no consideration; for example, when an asset is acquired as a gift or when a liability to pay compensation or penalties arises from an act of wrongdoing.~~

6.70 Sometimes assets may be acquired and liabilities incurred as a result of an event other than a transaction on arm's-length terms, for example:

(a) the transaction price may be affected by relationships between the parties, or by financial distress or other duress of one of the parties;

(b) an asset may be acquired as a gift or on subsidised terms (for example, from a government);

(c) a liability may be imposed by legislation or regulation;

(d) a liability to pay compensation or a penalty may arise from an act of wrongdoing.

6.71 ~~In such cases, measuring the asset acquired, or the liability incurred, at its historical cost of zero would be unlikely to may not provide a faithful representation of the assets and liabilities of the entity and of any income or expense arising on the event or transaction. Hence, it may be appropriate to measure such assets acquired and liabilities incurred at a current value and recognise the difference between that amount and any consideration given or received as income or expense. This might represent a gain arising from a bargain purchase or a loss arising from an overpayment.~~

Internally constructed assets

6.72 ~~Unnecessary changes in measurement bases can be avoided by measuring assets constructed by the entity on the same basis as the basis that would be used subsequently (for example, at historical cost if the subsequent measurement of the asset will be historical cost and at current value if the subsequent measurement of the asset will be a current value).~~

6.73 ~~Measuring the asset on its completion date at a fair value could provide relevant information about the cost-effectiveness of the construction through the recognition of income or expenses on completion. Hence, a change in the measurement basis from historical cost to fair value may be justified. However, determining fair value may not be easy for unique or custom made assets. Consequently, the cost of doing so may outweigh the benefits for many internally constructed assets.~~