

# International Financial Reporting Standards

## Conceptual Framework Measurement

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## Before we start...

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- You can download the slides by clicking on the button below the slides window
- This webinar is a recording (it is not live), so we are unable to take any questions
- The views expressed are those of the presenters, not necessarily those of the IASB or IFRS Foundation

# Conceptual Framework webinar schedule

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## Previously-recorded webinars

17 / 06	Overview of Conceptual Framework Exposure Draft
06 / 08	Chapter 4 and 5—the elements of financial statements: definitions and recognition
13 / 08	Chapter 4—a closer look at liabilities and executory contracts

## This webinar

20 / 08	Chapter 6—measurement
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## Future webinars

27 / 08	Chapter 7—classification of income and expenses (profit or loss vs. OCI)
03 / 09	Chapter 5—derecognition of assets and liabilities
10 / 09	Chapter 3—the reporting entity
17 / 09	Chapters 1 and 2—objectives and qualitative characteristics
24 / 09	Possible implications of the proposals—with provisions and contingent liabilities case study

Background

Measurement and measurement bases

Information provided by the measurement bases

Selecting a measurement basis

Timeline and further information

## Current Conceptual Framework

- Very little guidance on measurement

## Discussion Paper

- Suggested mixed measurement approach
- Discussed how qualitative characteristics affect measurement and implications for particular types of assets and liabilities

## Feedback

- Support for mixed measurement approach
- Insufficiently developed
- Too much Standards-level detail

## Exposure Draft

- Describes different measurement bases and the information that they provide
- Describes factors to consider in selecting a measurement basis

# What is measurement?

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Measurement is the process of quantifying in monetary terms information about an entity's assets, liabilities, equity, income and expenses

Measurement bases can be categorised as:

Historical cost

Current value

# Historical cost: non-financial

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## Non-financial assets

Cost incurred  
(including transaction costs)

—

Consumption  
(depreciation/ amortisation)

—

Impairment

## Non-financial liabilities

Consideration received  
(net of transaction costs)

+

Interest

—

Fulfilment

+

Onerous

Do not reflect changes caused by other factors

# Historical (amortised) cost: financial

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## Financial assets

Consideration given  
(including transaction costs)

+

Interest

+ -

Changes in estimates of cash  
flows (includes impairment)

-

Receipts

## Financial liabilities

Consideration received  
(net of transaction costs)

+

Interest

+ -

Changes in estimates of  
cash flows

-

Payments

Do not reflect changes in prices caused by other factors



## Measurement based on:

### Market participants' assumptions

- Fair value

### Entity-specific assumptions

- Value in use (assets)
- Fulfilment value (liabilities)

# Information provided - Assets

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	Historical cost	Current value	
		Fair value	Value in use
Statement of financial position	Recoverable cost of unconsumed/uncollected part of an asset	Price that would be received to transfer the asset	Present value of cash flows from use and ultimate disposal
Statement(s) of financial performance	Income or expenses on initial recognition <sup>(a)</sup>	Income or expenses on initial recognition <sup>(a)</sup>	Income or expenses on initial recognition <sup>(a)</sup>
	Historical cost of economic resources consumed	Fair value of economic resources consumed	Value in use of economic resources consumed
	Interest income - financial assets only	Interest income <sup>(b)</sup>	Interest income <sup>(b)</sup>
	Impairment losses	Impairment losses <sup>(b)</sup>	Impairment losses <sup>(b)</sup>
	Income or expenses on sales of assets	-	-
	-	Remeasurements	Remeasurements

(a) Exchanges of unequal value only

(b) If identified separately

# Information provided - Liabilities

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	Historical cost	Current value	
		Fair value	Fulfilment value
Statement of financial position	Net consideration for taking on the unfulfilled part of a liability	Price that would be paid to transfer the liability	Present value of cash flows to fulfil the liability
Statement(s) of financial performance	Income or expenses on initial recognition <sup>(a)</sup>	Income or expenses on initial recognition <sup>(a)</sup>	Income or expenses on initial recognition <sup>(a)</sup>
	Consideration received for obligations fulfilled	Fair value of obligations fulfilled	Fulfilment value of obligations fulfilled
	Interest expense	Interest expense <sup>(b)</sup>	Interest expense
	Losses on liabilities that have become (more) onerous	Losses on liabilities that have become (more) onerous <sup>(b)</sup>	Losses on liabilities that have become (more) onerous <sup>(b)</sup>
	Income or expenses on settlements or transfers	-	-
	-	Remeasurements	Remeasurements

(a) Exchanges of unequal value only

(b) If identified separately

# Selecting a measurement basis

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For information provided by a particular measurement basis to be useful, it must be:

Relevant

A faithful representation

## Enhancing characteristics

Comparability • Verifiability • Timeliness • Understandability

Cost constraint

Likely outcome

Mixed  
measurement

# Factors when selecting a measurement basis

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## Relevance

- Information produced in both:
  - statement of financial position; and
  - statement(s) of financial performance
- How an asset or liability contributes to future cash flows
  - depends in part on business activities being conducted
- Characteristics of asset or liability
  - eg nature or extent of variability in cash flows, sensitivity to risks etc
- Level of uncertainty
  - but sometimes a measurement with a high degree of uncertainty is the only relevant measurement

# Factors when selecting a measurement basis

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## Faithful representation

- Consider how best to portray link between items

## Other

- Understandability
  - Using new or different measurement bases could reduce understandability
  - Avoid unnecessary changes in measurement bases
- Cost constraint
  - Benefit of providing useful information should exceed the cost of doing so

# More than one relevant measurement basis

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Sometimes more than one measurement basis is needed to provide relevant information

- in most cases: use single measurement basis for both the statement of financial position and the statement(s) of financial performance. Disclose other measurement basis in notes (if necessary)
- in some cases: use current value measurement basis in the statement of financial position and a different measurement basis in the statement of profit or loss (dual measurement)

Relevance depends, in part, on nature of business activities conducted

One example of the use of OCI

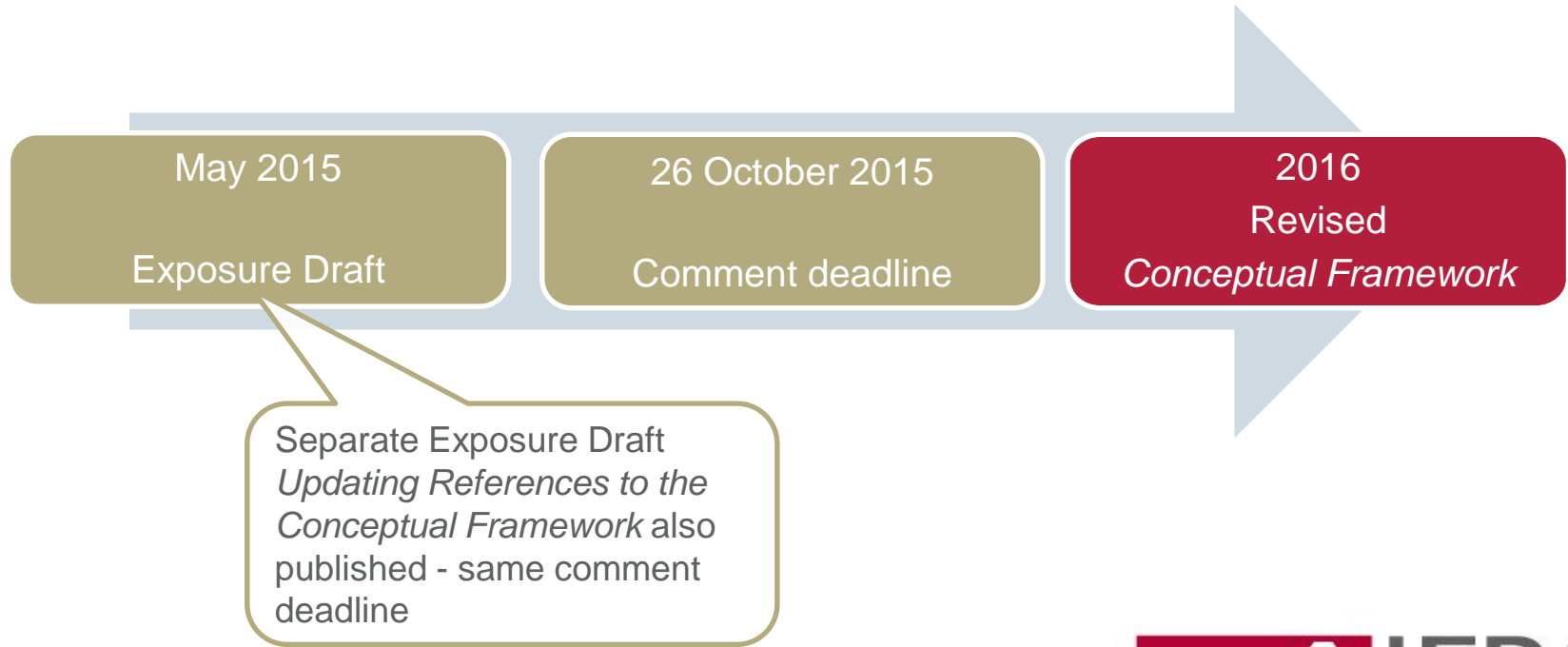
## Dual measurement

- a current value measurement basis for the asset or the liability in the statement of financial position; and
- a different measurement basis to determine the related income or expenses in the statement of profit or loss.
- difference is included in OCI

For example, FVOCI for financial assets

Statement of financial position	• Fair value
Statement of profit or loss	• Amortised cost
OCI	• Difference between fair value and amortised cost





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- Exposure Draft *Conceptual Framework for Financial Reporting*  
<http://go.ifrs.org/ED-CF-May2015>
- Conceptual Framework website  
<http://go.ifrs.org/Conceptual-Framework>
- Submit a comment letter  
[http://go.ifrs.org/comment\\_CF](http://go.ifrs.org/comment_CF)
- Snapshot  
<http://go.ifrs.org/CFSnapshot2015>
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