

Dee Ranaweera CPA

State Controller's Office
Division of Accounting and Reporting
State Government Reporting Policy Section

Questions for Users about Measurement Concepts

- 1. Do you agree or disagree with the GASB's proposal that assets and liabilities should be measured as either initial amounts or remeasured amounts? Why do you agree or disagree?**

We agree with GASB's proposal that's assets and liabilities should be measured as either initial amounts or remeasured amounts. Measurement approach is needed to meet the objectives of financial statements. Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. Moreover, more than one measurement approach will be used for assets and liabilities to achieve objectives of financial reporting. Applying a single measurement approach to all assets would limit the ability to accountability and inter period equity and in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.

- 2. Do you agree or disagree that a cost of services that reflects initial amounts is more useful for assessment of inter-period equity than a cost of services that reflects remeasured amounts? Why do you agree or disagree?**

Re-measured amounts are useful for assessing inter-period equity than that of initial amounts. Financial reporting should help users whether current year revenues are sufficient to pay for the services provided that year and whether future tax payers will be required to assume burdens for services previously provided. Initial amounts are not generally useful as remeasured amounts in providing information to assess financial position, including service potential of the asset as well as ability to meet obligations when due. Statement of financial position includes assets that may have been acquired in different times, resulting in prices and other costs of financing for these assets will be different. Remeasured amounts provides better information about the remaining service potential of assets at the reporting date and provides value of those assets that will provide in the future. Remeasured amounts also provide greater comparability because valuation is as of a certain point of time.

- 3. Do you agree or disagree that fair value generally is not suitable for assets that will be used directly to provide services? Why do you agree or disagree?**

When measuring inter-period equity use of initial amounts rather than fair value is more consistent with reporting cost of services. Application of fair value on assets that will be used in providing services will result in hypothetical cost that has not incurred. During inflationary times cost of depreciation will be higher under the fair value when compared with initial values. When inter-

period comparisons are made, use of fair value may reduce the comparability of assets and liabilities.

4. Do you agree or disagree with the GASB's four proposed measurement attributes? Why do you agree or disagree?

Agree, because all assets cannot be valued using the same attribute; historical costs can be used to measure only initial amounts while fair value, replacement cost, and settlement cost can measure either initial amounts or remeasured amounts. Historical cost is suitable for assessing cost of services but less useful in assessing government's wherewithal, while replacement costs are suitable for assessing assets that can provide services but not for assets that will be converted to cash. Settlement costs are limited to transactions where there is a specific buyer or seller. Therefore, we believe there should be different measurement attributes.

Questions for Users about the Definition of Fair Value

5. Do you agree or disagree with the GASB's proposed definition of fair value? Why do you agree or disagree?

Proposed definition is more specific than the previous definitions issued by GASB. We agree that fair value is a market based measurement, where price paid is based on market conditions. Proposed definition focuses on price to sell an asset or transfer liability rather than an exchange. Proposed definition emphasize, that fair value is seller's price or a buyer's price sometimes which could be significantly different. Proposed definition also stresses the importance where there is no ready market exist, most advantageous market should be considered.

6. Do you agree or disagree with the GASB's proposal that, if fair value were used to measure a nonfinancial asset, the fair value should be based on its highest and best use? Why do you agree or disagree?

All non- financial assets may not have a ready market. Using fair value measurement enables to capture the physically possible, legally permissible, and financially feasible price on a non-financial asset. Fair value measurement will consider the highest and best use of the asset. This means the ability of a willing buyer and a willing seller to generate economic benefits from a given non-financial asset. However, since the highest and best use can be applied standalone assets or combination with other assets highest and best use could be subjective, and possibility of inflated price on individual asset or group of assets

Questions for Users about the Measurement of Fair Value

6. Do you agree or disagree with the GASB's proposals regarding valuation approaches and techniques? Why do you agree or disagree?

Objective of valuation approach is to estimate the price in an orderly transaction, what willing buyer and a willing seller would agree to pay to transfer a liability or to acquire an asset under current market conditions. In order to estimate willing buyer and a willing seller need to make numerous assumptions. Basis for assumptions would be different on type of asset and conditions exist. Therefore, having a valuation approach and valuation techniques are necessary in valuation of asset.

7. Do you agree or disagree with the GASB's proposal to categorize inputs into Level 1, Level 2, or Level 3? Why do you agree or disagree?

Inputs or estimates used in fair value measurement may have qualitative differences. Some inputs may be strictly determined in active markets providing the more reliable and relevant fair values while some other estimated or inputs may not be directly observable, and need to be obtained from corroborated market data while other factors used in estimates are not observable. Unobservable factors are used when active market data or observable data is not available. Therefore, it is fair to categorize the inputs used in calculating fair value.

8. Do you agree or disagree with the GASB's proposal to allow governments to use a practical expedient to value investments in certain entities that calculate net asset value per share? Why do you agree or disagree?

The practical expedient is used when readily determinable fair value of investments is not available. Without a readily determinable fair value fair value investments may be very difficult to measure. Practical expedient required judgment because it is difficult to determine the inputs to determine fair value. Using judgment may not give the most accurate price on the assets, because judgment could be subjective. Therefore using practical expedient to value investments in certain entities may not be the best valuation method.

Questions for Users about the Application of Fair Value

9. Do you agree or disagree with the GASB's preliminary view that investments generally should be measured at fair value? Why do you agree or disagree?

Governments primarily hold investments for generating income and profit and its present service capacity to generate cash or be sold and generate cash. Investments should be measured at fair value because fair value is what willing buyer and willing seller agreed to exchange in an open market. Investments that have significant changes in fair values should be reported as unrealized gains or losses representing governments' ability to finance its activities are either increased or decreased. Equity method of accounting, accounts for equity and income regardless of whether income is distributed to shareholders, which is not in compliance with basic accounting principles.

10. Do you agree or disagree with the GASB's proposed definition of an investment? Why do you agree or disagree?

Investment is a process of acquiring assets primarily for future income. Governments primarily hold security or other assets to generate income or profit so that such income could be used for generating cash to provide services to its citizens (service capacity). This definition emphasizes on service capacity and ability to generate cash. Government's objective is to collect resources and ensure sufficient resources are generated to provide services. We agree with the proposed definition.

11. Do you agree or disagree with the GASB's preliminary view that fair value should not be adjusted for transaction costs? Why do you agree or disagree?

Transaction costs are costs incurred to sell an asset or transfer an asset in the most advantageous market. Transaction costs are essential to the transaction and transaction cost would not have incurred had the decision been made not to buy or sell an asset. Therefore, fair value should not be adjusted for transaction costs.