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Governmental Accounting Standards Series

Concepts Statement No. 6 of the
Governmental Accounting
Standards Board

on concepts related to

Measurement of Elements of Financial Statements

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
OF THE FINANCIAL ACCOUNTING FOUNDATION

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Summary

This Concepts Statement is one of a series that the GASB has issued or will issue. Concepts Statements are intended to provide a conceptual framework of interrelated objectives and fundamental principles that can be used as a basis for establishing consistent accounting and financial reporting standards.

Concepts Statements identify the objectives and fundamental principles of financial reporting that can be applied to solve numerous accounting and financial reporting issues. They provide the GASB with the basic conceptual foundation for considering the merits of alternative approaches to financial reporting and help the GASB develop well-reasoned accounting and financial reporting standards. These Concepts Statements also assist preparers, auditors, and users in better understanding the fundamental concepts underlying accounting and financial reporting standards. Concepts Statements do not prescribe the accounting and financial reporting standards that apply to a particular item or event.

This Concepts Statement establishes concepts for measurement of elements of financial statements. The Concepts Statement addresses both measurement approaches and measurement attributes. The measurement approach identifies the point in time to which the amount reported for an element of financial statements directly refers. The choice of a measurement approach determines whether an asset or liability presented in a financial statement should (1) be reported at an amount that reflects a value at the date the asset was acquired or the liability was incurred or (2) be remeasured and reported at an amount that reflects a value at the financial statement date. A measurement attribute is the feature or characteristic of the asset or liability that is measured.

This Concepts Statement establishes the two measurement approaches that are used in financial statements, as follows:

- **Initial-Transaction-Date-Based Measurement (Initial Amount)—**The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount that are derived from the amount at which the asset or liability was initially reported.
- **Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)—**The amount assigned when an asset or liability is remeasured as of the financial statement date.

This Concepts Statement identifies circumstances in which one measurement attribute is more appropriate than the other. *Initial amounts* are more appropriate for assets that are used directly in providing services. *Remeasured amounts* are more appropriate for assets that will be converted to cash (financial assets). *Remeasured amounts* also are more appropriate for liabilities for which there is uncertainty about the timing and amount of payments.

This Concepts Statement also establishes the four measurement attributes that are used in financial statements, as follows:

- **Historical cost** is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction.
- **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
- **Replacement cost** is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date.
- **Settlement amount** is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market.

How This Concepts Statement Improves Financial Reporting

This Concepts Statement improves financial reporting by augmenting the framework through which the Board maintains consistency in standards setting. These concepts address measurement, which is a necessary component of a complete framework for reporting in traditional financial statements. These concepts also may benefit preparers and auditors when evaluating transactions for which there are no existing standards or in implementing existing standards.

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Measurement of Elements of Financial Statements

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Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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PURPOSE AND SCOPE

1. Concepts Statements are intended to provide a framework of interrelated objectives and fundamental principles that can be used as a basis for establishing consistent accounting and financial reporting standards. The conceptual framework provides the Board with the basic conceptual foundation for the development of accounting and financial reporting standards and for consideration of the merits of alternative approaches to accounting and financial reporting. Concepts Statements also assist preparers, auditors, and users of state and local government financial statements to better understand the fundamental concepts underlying accounting and financial reporting standards in the governmental environment. Concepts Statements are not used to prescribe the accounting and financial reporting standards that apply to a particular item or event.

2. Existing accounting and financial reporting pronouncements may be inconsistent with the concepts in this Concepts Statement. However, this Concepts Statement does not (a) require a change in existing generally accepted accounting principles either for accounting and financial reporting for specific transactions or for presentation of financial statements or (b) amend, modify, or interpret established accounting principles.

3. The objective of this Concepts Statement is to identify concepts for the Board to consider when developing standards for measurement of elements of financial statements. This Concepts Statement addresses both measurement approaches and measurement attributes. The choice of a measurement approach determines whether an asset or liability presented in a financial statement should (a) be reported at an amount that reflects a value at the date the asset was acquired or the liability was incurred or (b) be remeasured and

reported at an amount that reflects a value of the asset or liability at the date of the financial statements. A measurement attribute is the feature or characteristic of the asset or liability that is measured.

4. The scope of this Concepts Statement is measurement of elements for traditional financial statements of state and local governments. In the context of this Concepts Statement, traditional financial statements consist of a statement of financial position prepared as of a certain date and a statement of resource flows prepared for a period ended as of that date. The statements articulate through the element of net position. Traditional financial statements present a single measurement for each item presented. Other types of financial statements, measurement approaches, and measurement attributes may be appropriate for information presented in other methods of communication used in general purpose external financial reporting, including notes, required supplemental information, and supplemental information to traditional financial statements.

MEASUREMENT APPROACHES IN FINANCIAL STATEMENTS

5. Measurement is the act or process of determining a value for the elements presented in financial statements. Concepts Statement No. 4, *Elements of Financial Statements,* defines the elements of financial statements, which include assets, liabilities, deferred outflows of resources, deferred inflows of resources, net position, outflows of resources, and inflows of resources.

6. The measurement approach identifies the point in time to which the amount reported for an element of financial statements directly refers. There are two measurement approaches for elements of traditional financial statements.

- ***Initial-Transaction-Date-Based Measurement (Initial Amount)***—The transaction price or amount assigned when an asset was acquired or a liability was incurred, including subsequent modifications to that price or amount that are derived from the amount at which the asset or liability was initially reported.
- ***Current-Financial-Statement-Date-Based Measurement (Remeasured Amount)***—The amount assigned when an asset or liability is remeasured as of the financial statement date.

7. In applying either measurement approach, various measurement attributes may be used. Measurement attributes are discussed in paragraphs 34–43.

Focus on Assets and Liabilities

8. Measurement concepts focus on assets and liabilities because assessment of whether remeasurement is appropriate is directly relevant only for assets and liabilities. Evaluation of the measurement approach for deferred outflows of resources and deferred inflows of resources is not included in this Concepts Statement because measurement of deferred outflows of resources and deferred inflows of resources is based on the measurement of the related asset or liability, either at the initial date of the transaction or at a subsequent financial statement date. Evaluation of measurement approaches for outflows of resources and inflows of resources also is not included because outflows of resources and inflows of resources result from (a) the acquisition or consumption of assets, (b) the incurrence or satisfaction of liabilities, or (c) increases or decreases in existing assets or liabilities (or deferred outflows of resources or deferred inflows of resources). As such, measurement of outflows of resources and inflows of resources is determined through measurement of other elements. Evaluation of the measurement approach for the element of net position also is not included because net position is defined in Concepts Statement 4 as the residual of the other elements in the statement of net position.

9. It is expected that one measurement approach will be applied to certain assets and liabilities and that the other measurement approach will be applied to other assets and liabilities. Applying a single measurement approach to all assets and liabilities would reduce the ability of financial statements to meet as many of the objectives of financial reporting described in Concepts Statement No. 1, *Objectives of Financial Reporting,* as possible and would reduce the alternatives for achieving an appropriate balance among the qualitative characteristics of information.

Initial Amounts

10. The initial amount at which an asset or a liability is reported may be determined in a variety of ways according to the nature of the asset or liability, with the goal of reporting it at an amount that reflects a value at the transaction date (when the asset was acquired or liability incurred).

11. The amount at which an asset or liability is initially reported may be adjusted over time, such as through depreciation or impairment. The resulting net amount still is considered to be an initial amount because it is derived from the amount at which the asset or liability was initially reported. Long-lived assets reported at initial amounts generally are associated with cost allocations to reporting periods. Balances of long-lived assets net of cost allocations are considered a form of initial amount.

12. Certain features of an asset or a liability may make identification of an initial amount difficult. For example:

- Costs associated with some asset acquisitions, such as installation costs, generally are considered to be part of the initial amount of the asset.
- More than one asset may be acquired or liability incurred in a single transaction, requiring the total transaction amount to be allocated to its components.
- The initial amounts of certain assets may include allocations that are inherently subjective in nature, such as overhead allocations to self-constructed assets or allocations of costs to reporting periods.

These features present practical issues to be resolved in standards setting and do not present conceptual disadvantages to the use of initial amounts as the measurement approach.

Remeasured Amounts

13. Remeasured amounts reflect the conditions in effect at the financial statement date and may be determined using a number of methods. Remeasurement changes the amount reported for an asset or liability from an initial amount or previous remeasured amount to an amount indicative of a value at the financial statement date. Remeasured amounts establish a new carrying value for the asset or liability that is determined without reference to previously reported amounts.

Considerations for Evaluation of the Measurement Approaches

14. This Concepts Statement builds upon the existing components of the GASB's conceptual framework. Concepts Statement 1, in particular, provides support for evaluating the measurement approaches. The overriding criterion in

evaluating the measurement approaches is the degree to which the use of the measurement approach promotes achievement of the applicable objectives of financial reporting, with consideration of the qualitative characteristics of information in financial reporting. The objectives of financial reporting reflect the needs of users of financial statements. For this purpose, the applicable objectives of financial reporting are those that contain components that can be met through traditional financial statements. These objectives include providing information about:

- The relationship between current-year revenues and the cost of providing current-year services
- The sources and uses of financial resources
- How the governmental entity financed its activities and met its cash requirements
- Whether the entity's financial position improved or deteriorated as a result of the year's operations (activities)
- The financial position and condition of a governmental entity to be used 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
- A governmental entity's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources.

15. Some objectives are met only through a statement of financial position, some only through a resource flows statement, and some through both. It is possible that application of one of the measurement approaches might promote an objective met through a statement of financial position, and application of the other measurement approach might promote a different objective met through a resource flows statement. However, only a single measurement approach should be applied to a specific asset or liability in traditional financial statements. If that measurement approach is to report a remeasured amount, then remeasurement gains or losses generally should be reported in the resource flows statement. Such remeasurement gains and losses generally cannot be reported as deferred outflows of resources and deferred inflows of resources because they relate to the current reporting period, not to future periods.

16. In addition, the qualitative characteristics of understandability, reliability, relevance, timeliness, and comparability should be considered when evaluating measurement approaches. The qualitative characteristic of consistency is not directly applicable to the evaluation of the measurement approaches. Rather,

applying measurement approaches and measurement attributes in the same manner from period to period promotes consistency. In addition to the qualitative characteristics, the limitations identified by cost-benefit analyses should be considered.

Objectives of Financial Reporting, Qualitative Characteristics, and Cost-Benefit Limitations

Relationship to the Objectives of Financial Reporting

17. Financial reporting should help users assess whether current-year revenues are sufficient to pay for the services provided that year and whether future taxpayers will be required to assume burdens for services previously provided—an assessment of interperiod equity.[1] The cost of current-year services associated with assets used to provide those services described in the objectives of financial reporting traditionally has been viewed as a historical cost-based notion. In the assessment of whether current-year revenues cover the cost of the government's services, the most relevant cost associated with these assets is the cost that has been incurred by the government—the cost based on the initial amount. By contrast, costs that have not been incurred for assets used to provide services—those based on remeasured amounts—do not reflect a burden on current resource providers. Replacing the service capacity of assets used to provide current service is a future event. Consequently, the use of initial amounts for assets used to provide services, such as capital assets and prepaid items, is consistent with the objective of providing information about the cost of current-year services.

18. Initial amounts generally are not as useful as remeasured amounts in providing information to assess financial position, including the service potential of assets and the ability to meet obligations when due. A statement of financial position includes assets acquired and liabilities incurred at varying points in time. Critical factors such as prices and interest rates change over time. Assets and liabilities measured using initial amounts will reflect the prices and interest rates at their respective transaction dates, not at the financial statement date. Remeasured amounts, however, would provide better information about the remaining service potential of assets at the financial statement date. For assets that will be used in providing services, a remeasured amount reflects an

[1] Interperiod equity is discussed in paragraphs 59–61 of Concepts Statement 1 and in paragraph 27 of Concepts Statement 4.

assessment of the value that the use of those assets will provide in the future. For assets that will be converted to cash, a remeasured amount better reflects the current value of the cash flows that the assets are expected to produce. Understanding of financial position is enhanced when liabilities are presented at a remeasured amount because a remeasured amount generally provides a better assessment of the magnitude of resources that are expected to be needed currently to satisfy the obligation. When remeasured amounts are used in the statement of financial position, those assets and liabilities have more meaning because they reflect a value as of a common date.

19. It may not be possible to report some assets or liabilities using a measurement approach that promotes the objectives of both (a) providing information about the cost of current-year services and (b) providing information about the financial position of a governmental entity to be used in assessing the level of services that can be provided by the governmental entity. When only one measurement approach is applied for a specific asset or liability, one objective will necessarily be given priority over the other. In these circumstances, the cost-of-services information has greater relevance in the governmental environment than the service-potential information because of the importance of providing information that can be used to assess interperiod equity.

20. Use of remeasured amounts generally results in reporting gains and losses in a resource flows statement. Reporting of gains and losses based upon remeasurement of assets and liabilities provides better information to assist in determining whether the entity's financial position improved or deteriorated as a result of the year's operations (activities).

Qualitative Characteristics

Understandability

21. The understandability characteristic recognizes that users of financial statements have varying levels of knowledge about financial reporting and that information should be presented as simply as possible. It does not, however, preclude presenting information only because it may be difficult to understand. Remeasurement of assets and liabilities and the reporting of unrealized gains and losses resulting from remeasurement may be less understandable than use of initial amounts for some types of assets and liabilities, such as capital assets.

Reliability

22. The reliability of information about assets and liabilities reported using initial amounts generally is high. However, determining initial amounts may involve complexities that affect the faithful representation of initial amounts. The need to allocate the initial amounts of certain assets to periods may decrease reliability of the information because judgments may be needed to determine allocation periods. However, this concern can be addressed through communication methods other than recognition and display in financial statements, such as through an explanatory disclosure in the notes to the financial statements.

23. Assessing reliability of remeasured amounts may be complex. Reliability of remeasured amounts varies depending upon circumstances. Certain types of assets and liabilities can be remeasured reliably. These would include assets and liabilities for which there are active markets. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. With an active market, there is little doubt that a government could have sold the asset or transferred the liability at the remeasured amount at the financial statement date if it had chosen to do so. A stock exchange and the market for most U.S. Treasury securities are examples of active markets.

24. Some assets and liabilities can be remeasured with sufficient reliability because there is a valuation methodology that is verifiable, widely accepted as representationally faithful, and reasonably free from bias. For example, a remeasured amount for many financial instruments, whether receivables or payables, can be determined by computing the present value of the expected cash flows. Reliability does not imply precision or certainty. However, as uncertainty associated with the estimates used in determining the remeasured amount increases, such as with determination of the appropriate discount rate in conjunction with changes in the creditworthiness of the payer, the reliability of the measurement decreases. Some assets and liabilities are so unusual that the estimates used in determining remeasured amounts are uncertain to the extent that the resulting remeasured amounts would not be sufficiently reliable. In other circumstances, however, remeasured amounts are more reliable because remeasurement incorporates the effect of more recent events and changes in circumstances in the estimates of the cash flows. A measurement that is biased would be inconsistent with the qualitative characteristic of reliability.

25. Some assets and liabilities do not trade in active markets, yet are traded in reasonably well-organized markets in which transactions involving similar assets or liabilities occur with some frequency. The markets for common types of vehicles or certain types of real estate are examples. These remeasured amounts would be sufficiently reliable when based on recent sales of similar items.

Relevance

26. Relevance requires the presence of many of the other qualitative characteristics. For example, if the information provided in a financial report is not timely or reliable, it may not be relevant. However, information can meet all other characteristics and still not be relevant. To be relevant, there should be a close logical relationship between the information provided and the purpose for which it is needed. The objectives of financial reporting identify the information that users of financial statements need for making decisions. Measurements are relevant when they promote the objectives of financial reporting.

Timeliness

27. Timeliness does not limit measurement to the use of initial amounts. The effect that using remeasured amounts has on the ability to provide timely information may vary depending on the extent of the measurement procedures and the availability of the information needed. In some circumstances, concerns regarding the potential effect of remeasurement on the timeliness of financial reporting can be addressed through sufficient planning.

Comparability

28. Information about governments is comparable when it is presented using the same accounting principles. Thus, when governments report different information, it should be due to differences in their underlying transactions. Initial amounts provide greater comparability for cost-of-services information, which includes the cost of the use of capital assets in providing services. Use of initial amounts reflects differences in cost of services, which may be due to one government acquiring the capital assets used in providing services at a time when prices were more or less favorable than when another government acquired its capital assets. Use of remeasured amounts would result in not reporting this difference in cost of services.

29. Remeasured amounts provide greater comparability than initial amounts for information reported in a statement of financial position, including information that can be used to assess the service potential of the resources reported. Remeasurement results in measurements of assets and liabilities as of the same point in time. By contrast, use of initial amounts results in measurements of assets and liabilities at the various respective dates when they were acquired or incurred. Comparability would be further enhanced through use of both the same measurement attribute and the same measurement method.

Cost-Benefit Limitations

30. The cost of producing information should be considered in relation to the expected benefits provided by that information. Costs associated with continuing to report assets and liabilities at their initial amounts generally are minimal and do not limit the use of initial amounts. The cost of determining a remeasured amount is low when there are active markets for the asset or liability such that remeasurement can be made by reference to recent transaction prices. The cost of determining a remeasured amount may be higher for assets and liabilities that do not trade in active markets or for which the methodologies for remeasurement are complex and may require specific expertise. However, a significant cost for remeasurement does not automatically rule out the use of a remeasured amount. Failure to remeasure may lead to incomplete or misleading information being reported in financial statements. This is the case for liabilities associated with significant uncertainties, such as certain pollution remediation obligations.

Application of Measurement Approaches

Assets Used Directly in Providing Services

31. As previously noted, initial amounts are more appropriate for assets that are used directly in providing services. The objectives of financial reporting that are most relevant to the selection of a measurement approach for assets used directly in providing services are (a) providing information about the cost of current-year services and (b) providing information that can be used to assess the remaining service potential of assets. The amounts that are reported in a statement of resource flows related to assets used directly in providing services are a component of the information presented to meet the objective of providing information about the cost of current-year services. As discussed in paragraph 17, initial amounts are more appropriate for reporting information on cost

of services. On the other hand, the amounts reported in a statement of financial position relate to the objective of providing information that can be used to assess the remaining service potential of assets used directly in providing services, and remeasured amounts generally would better represent the value of that service potential. If only one measurement approach can be applied for a specific asset or liability, one objective has to be viewed as more important in this circumstance. For assets used directly in providing services, the cost-of-services information has greater relevance to financial statement users than the service-potential information because of the importance of providing information that can be used to assess interperiod equity. Additionally, application of initial amounts to assets that are used directly in providing services is supported by cost-benefit and timeliness considerations. The cost of reporting assets used directly in providing services at a remeasured amount frequently is greater than the cost of reporting them at their initial amounts and may negatively affect timeliness of financial reporting.

Assets That Will Be Converted to Cash

32. Remeasured amounts are more appropriate for assets that will be converted to cash (for example, financial assets). A remeasured amount provides better information about financial assets for assessing financial position and the ability to satisfy obligations as they become due. The usefulness of financial assets is in their conversion to cash—whether through the sale of the asset or the cash proceeds it generates through the course of ownership of the asset—which can then be used to acquire services or to meet existing obligations. A remeasured amount is most relevant to the objective of assessing financial position and the ability to satisfy obligations as they become due because it presents financial assets using a consistent scale of measurement—that of values related to the date of the financial statements. Some remeasured amounts take into account the time value of money—acknowledgement that amounts that will be collected further into the future generally are less valuable than the same amounts that will be collected closer to the financial statement date. Remeasured amounts for financial assets also are understandable to users of financial statements, are sufficiently reliable, and provide information that is useful for comparing one government to another. Use of remeasured amounts for financial assets generally does not raise concerns with timeliness or cost of financial reporting, except in circumstances in which the applicable valuation model is highly complex or may require use of professional expertise of other disciplines.

Variable-Payment Liabilities

33. Remeasured amounts are more appropriate for liabilities for which there is uncertainty about the timing and amount of payments (variable-payment liabilities), such as with compensated absences or pollution remediation obligations. Remeasured amounts for variable-payment liabilities incorporate additional information about the amount and timing of the payments. More relevant information about the government's financial position is provided by using remeasured amounts for variable payment liabilities because they more faithfully represent the amount of resources the government needs to sacrifice in order to satisfy the liabilities. The related cost-of-services information should reflect the most accurate cost, and the most recent estimate for these types of liabilities is the most relevant cost to the government. Because the estimates consider additional information and the resulting amount is closer to final settlement amounts, remeasured amounts for variable-payment liabilities are more understandable and reliable. Remeasured amounts for variable-payment liabilities are more comparable than initial amounts because remeasured amounts reflect measurements at the same point in time. Generally, there is a higher cost associated with remeasuring variable-payment liabilities, sometimes because additional professional expertise is needed; however, there also is a cost to the user of outdated or misleading information. Cost constraints and potential timeliness issues generally do not preclude the use of remeasured amounts for liabilities for which there is uncertainty about the timing and amount of payments.

MEASUREMENT ATTRIBUTES

34. Another dimension to measurement is the particular measurement attribute that is used, regardless of whether measurement is made as an initial amount or as a remeasured amount. A measurement attribute is the particular characteristic of an asset or liability that is being measured. There are four measurement attributes for elements of traditional financial statements: historical cost,[2] fair value, replacement cost, and settlement amount.

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[2] *Historical cost* is the term most appropriate for assets; *historical proceeds* is the term most appropriate for liabilities. For the purposes of this Concepts Statement, however, *historical cost* is used when referring to both assets and liabilities.

Historical Cost

35. Historical cost is the price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction. Historical cost is an entry price and can only be used when measuring initial amounts.

36. Use of historical cost, particularly with assets used in providing services, generally results in a cost-of-services amount that is relevant for assessing interperiod equity. However, use of historical cost presents challenges when presenting information about assets and liabilities that is comparable and useful for assessing financial position. Assets and liabilities presented at historical cost reflect the prices at the dates of transactions, rather than at the financial statement date. Consequently, amounts presented may reflect prices at multiple dates and may impede the ability (a) to compare this information with that of other entities, (b) to understand the service potential embodied in assets, and (c) to assess the amount of resources that will be required to satisfy liabilities.

37. Historical cost typically is an amount that is readily determinable with minimal cost, is considered to be understandable and reliable, and does not adversely affect the timeliness of financial reporting. At times, however, complications such as allocation of costs of a single transaction to the multiple items acquired, or reductions in the reported original cost to represent the estimated usage of an asset over time, can reduce the understandability and reliability of the reported measure.

Fair Value

38. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is an exit price. The market to which the definition of fair value refers is the principal market or, when there is not a principal market, the entity's most advantageous market. For nonfinancial assets, the price should represent the value of the asset at its highest and best use as determined by market participants. The highest and best use notion takes into account uses that are physically possible, legally permissible, and financially feasible. For liabilities, the price should take into consideration the credit standing of the entity. Multiple valuation techniques may be used to measure fair value.

39. Fair value is appropriate for use either as an initial amount or as a remeasured amount. Fair value could be applied as an initial amount in circumstances in which a historical cost amount is not available, typically because the asset or liability did not arise from an exchange transaction or because the asset or liability was acquired in a group without amounts assigned to the individual assets and liabilities in the group. Relevance of the use of fair value to presenting information that promotes the objectives of financial reporting is tied to (a) whether it is applied as an initial amount or a remeasured amount and (b) the nature of the asset or liability being measured. The extent to which a fair value is understandable, reliable, and timely depends upon the techniques and inputs used to measure fair value. Comparability of information in a statement of financial position is improved when fair value is used as a remeasured amount. Fair value generally is not appropriate for assets that will be used directly to provide services because fair value is an exit price and governments will not be selling or otherwise exiting from these assets.

Replacement Cost

40. Replacement cost is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date. Replacement cost generally is considered to be appropriate only for assets that will be used in providing services, rather than assets that will be converted to cash. Replacement cost is an amount that reflects an entry value. Because this measurement attribute reflects the entity-specific service potential of an asset, it may or may not reflect (a) the highest and best use of the asset from the perspective of market participants or (b) an identical asset. A measurement of an asset at the initial transaction date using the replacement cost measurement attribute is referred to as *acquisition value.* Acquisition value may be used in circumstances in which historical cost is not available, typically when the asset did not arise from an exchange transaction or when the asset was acquired as part of a group of items without values assigned to the individual items in the group.

41. Consistent with the considerations regarding the use of initial and remeasured amounts, the use of replacement cost in conjunction with the application of the remeasured approach generally results in a cost-of-services amount that is less relevant for assessing interperiod equity than the use of either acquisition value or historical cost. Use of replacement cost in conjunction with the application of the remeasured approach, however, provides information about assets that is more comparable and useful for assessing financial position. The

cost of determining replacement cost, along with the effect on understandability, reliability, and timeliness of financial reporting, varies depending upon the specific method of determining the amount.

Settlement Amount

42. Settlement amount is the amount at which an asset could be realized or a liability could be liquidated with the counterparty, other than in an active market. A settlement amount can be either (a) the amount that the counterparty would accept to settle the liability or would pay to satisfy a receivable at the measurement date or (b) the amount that will be realized from an asset or will be needed to liquidate the liability in due course according to the terms of the arrangement between the government and the counterparty. A settlement amount may be an undiscounted amount (which generally is the case for assets and liabilities with short durations) or a discounted amount (which generally is the case for assets and liabilities with long durations). In circumstances in which the acquisition of an asset or incurrence of a liability is related to activities that occur in multiple reporting periods, a settlement amount also may be a proportion of the amounts expected to be received or paid. Settlement amount generally is not appropriate for (a) assets and liabilities for which there is no counterparty or (b) assets and liabilities that are likely to be realized or settled through a transaction in a market. A measurement of a liability at the initial transaction date using the settlement amount measurement attribute is sometimes referred to as *acquisition value.*

43. Settlement amount can be used in either an initial measurement approach or a remeasured approach. When used as a remeasured amount, settlement amount provides more relevant information for use in assessing an entity's financial position and information that is more comparable with information of other entities. The cost of determining settlement amount, along with the effect on understandability, reliability, and timeliness of financial reporting, varies depending upon the nature of the asset or liability being measured and the relative certainty or uncertainty of projected cash flows and other inputs to the measurement.

This Concepts Statement was issued by the affirmative vote of five members of the Governmental Accounting Standards Board. Mr. Fish and Mr. Granof dissented.

David A. Vaudt, *Chairman*
James E. Brown
William W. Fish
Michael H. Granof
David E. Sundstrom
Jan I. Sylvis
Marcia L. Taylor

Appendix A

BACKGROUND INFORMATION

44. The existing components of the GASB's conceptual framework include Concepts Statements No. 1, *Objectives of Financial Reporting;* No. 2, *Service Efforts and Accomplishments Reporting,* as amended by No. 5, *Service Efforts and Accomplishments Reporting;* No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements;* and No. 4, *Elements of Financial Statements.* Concepts on recognition and measurement of elements of financial statements are components necessary to complete the conceptual framework for reporting items in traditional financial statements (referred to as financial statements in this Concepts Statement).

45. A conceptual framework project on measurement attributes was added to the research agenda in December 2003, with a separate conceptual framework project on recognition added to the research agenda in August 2005. After considering feedback from the Governmental Accounting Standards Advisory Council (GASAC) at various meetings and the interrelatedness of the issues, the Board added a combined recognition and measurement attributes conceptual framework project to the research agenda in December 2005, with active deliberations on the current agenda beginning in December 2007.

46. During the period of the Board's deliberations on this project, the Federal Accounting Standards Advisory Board (FASAB) also was considering a conceptual framework project on measurement. The Board and the FASAB monitored each other's progress in their respective projects and coordinated with each other as appropriate. In August 2008, the Board met jointly with the FASAB and discussed measurement attributes and their relationship to the objectives of financial reporting. At its February and March 2010 meetings, the Board reviewed the FASAB's draft measurement concepts, which were developed by the FASAB using the Board's draft measurement concepts as a starting point, with various changes necessary to adapt the document to the federal government environment. The Board obtained input on some of the unique features of the federal government environment in order to better understand the differences between the two drafts. At a June 2010 joint meeting, the Board and the FASAB tentatively agreed to harmonize the use of the terms *measurement approaches* and *measurement attributes* in their re-

spective projects. The FASAB issued Statement of Federal Financial Accounting Concepts 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording,* in August 2011.

47. From December 2007 through June 2011, the Board discussed and reached tentative conclusions on conceptual issues of recognition and measurement. The Board considered comments received from members of the project task force—comprising experts broadly representative of the GASB's constituency—throughout the development of this document. In addition, the Board regularly updated the GASAC on project developments and received feedback from GASAC members during the GASAC's regular meetings.

48. In June 2011, the Board issued the Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches.* Thirty-eight organizations and individuals responded to the Preliminary Views. In October 2011, the Board held three public hearings on the proposals put forth in the Preliminary Views. In addition, 20 users of financial statements were interviewed regarding their views on the proposals in the Preliminary Views.

49. In December 2012, the Board decided that the project would be separated into two subprojects: measurement and recognition, with separate Exposure Drafts and Concepts Statements to be issued for each subproject.

50. In June 2013, the Board issued the Exposure Draft, *Measurement of Elements of Financial Statements.* Thirty organizations and individuals responded to the Exposure Draft. In addition, feedback from 24 users of financial statements was received in conjunction with a webinar presentation on both the Exposure Draft and the Preliminary Views, *Fair Value Measurement and Application.* The Board's consideration of these issues and response to this input are reflected in the Basis for Conclusions.

Appendix B

BASIS FOR CONCLUSIONS AND DISSENT

Introduction

51. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Concepts Statement. It includes discussion of the alternatives considered by the Board and the reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

Focus of Measurement Concepts

52. During the development of this Concepts Statement, the level and depth of concepts that would be included in the final Statement evolved. In the 2011 Preliminary Views, *Recognition of Elements of Financial Statements and Measurement Approaches,* the Board proposed certain specific views on circumstances in which one measurement approach was considered more appropriate than the other and did not include a discussion of measurement attributes.

53. However, in the Exposure Draft, *Measurement of Elements of Financial Statements,* the Board decided not to propose to formalize these preliminary views on measurement approaches as concepts and to change the focus of the measurement concepts. The Board proposed that the Concepts Statement focus on high-level measurement concepts only and, as such, exclude identification of circumstances in which one measurement approach might be more appropriate than the other. The Board proposed that it was not appropriate for the Concepts Statement to place limitations on the selection of a measurement approach for any broad category of assets or liabilities. Rather, selection of a measurement approach was viewed to be part of setting standards for accounting and financial reporting of assets and liabilities. Additionally, the Exposure Draft expanded the proposed measurement concepts to include a discussion of measurement attributes.

54. As a result of feedback received on the Exposure Draft regarding the fact that the preliminary views on applicability of measurement approaches in certain circumstances were not included as proposed concepts, the Board determined that these views should be formalized as concepts as described in

paragraphs 31–33. Respondents believed that these concepts identify circumstances in which one measurement approach might be more appropriate than the other and were concerned that, without the inclusion of these concepts, the Concepts Statement would be too broad to provide sufficient parameters to future Boards.

Evaluation of Measurement Approaches

Balancing Competing Objectives of Financial Reporting

55. The process of evaluating features of different measurement approaches may produce difficult choices, especially when evaluating the relevance of the information produced by application of the measurement approach to the promotion or achievement of the objectives of financial reporting. The information in a statement of financial position contributes to meeting some of the objectives of financial reporting, and the information in a resource flows statement contributes to meeting other objectives of financial reporting.

56. When the most appropriate measurement approach for objectives associated with a statement of financial position differs from the most appropriate approach for objectives associated with a resource flows statement, a difficult choice is necessary. Conceptually, the statement of financial position and the resource flows statement are both important, yet because a single measurement approach is required to be selected for a particular transaction, the choice may indicate which financial statement is more important in that circumstance. For example, initial amounts generally have less relevance than remeasured amounts when evaluating the statement of financial position to assess the level of services that can be provided by a government. However, initial amounts generally have more relevance than remeasured amounts when evaluating the cost-of-services information that is presented in a resource flows statement. In this circumstance, the Board believes that cost-of-services information is more important than the information about the level of services that can be provided by the government. The Board believes this because of the essential role of the resource flows statement in providing decision-useful information about the results of the activities of a government and in demonstrating accountability. In other conflicting circumstances, the Board may conclude that the information presented in the statement of financial position is more important than the resultant information presented in the resource flows statement.

Cost of Services

57. When evaluating the measurement approaches and whether they are consistent with the objectives of financial reporting—one of which is providing information about the cost of current-year services—the Board concluded that use of initial amounts is more consistent with reporting the cost of services in a manner that reflects the concept of interperiod equity.

58. Application of remeasured amounts to assets used in providing services would result in a cost-of-services measurement that would be based, in part, on hypothetical costs that have not been incurred by the government. In inflationary periods, depreciation included in the cost of services based upon remeasured amounts would exceed depreciation included in the cost of services based on initial amounts. If current-year taxpayers were to provide resources sufficient to cover the cost of services based upon remeasured amounts, resources beyond those needed to recover the cost of acquisition of the assets would be accumulated. Some may view this as a way of avoiding the potentially large year-to-year increases in the cost of services when large, long-lived service assets are replaced. Information about remeasured amounts of assets used in providing services is valuable for many purposes, such as assessing whether adequate funds or financing may be available for replacement of such assets to provide for continuity of services. The Board concluded that use of remeasured amounts for these assets is more oriented with policy decisions and planning, and use of initial amounts is more reflective of management's actions during the year—that of using assets acquired in prior years to provide services in the current year.

Evaluation of Understandability

59. The Board concluded that the understandability of reported measurements and potentially associated remeasurement gains and losses varies depending upon the nature of the asset or liability. For example, capital assets generally are not remeasured because the government needs to employ the capital asset to continue to provide services. In this circumstance, including a remeasurement gain (or loss) with inflows of resources and outflows of resources for the period would not promote either understanding of the cost of activities of the period or assessment of interperiod equity. On the other hand, gains and losses from remeasurement of investments are more understandable. It is widely understood that the most relevant value associated with investments is how much cash they can generate if the assets were sold (a remeasured amount)

rather than what was paid to acquire them (an initial amount). Gains and losses from remeasurement represent increases and decreases in the resources of a government during the reporting period.

Other Measurement Attributes Considered

60. When considering which measurement attributes should be used to measure elements in the financial statements, the Board also considered *value-in-use,* which is the benefit to be obtained from the continuing use of an asset and from its disposal at the end of its useful life. This potential attribute was not considered to be sufficiently different from replacement cost, which is defined in this Concepts Statement to be an entity-specific value.

61. This Concepts Statement also does not present the lower of cost or market (LOCOM) method as a measurement attribute. The Board views LOCOM as a multiple-attribute method that indicates the circumstances in which different measurement attributes should be applied. The Board also notes that LOCOM produces a biased measurement in that the lower of two values is selected. As such, LOCOM is inconsistent with the qualitative characteristic of reliability.

Constant-Dollar Accounting

62. The Board recognizes that constant-dollar accounting is a concept that could have been included and discussed in a Concepts Statement on measurement. In constant-dollar accounting, reported amounts are restated using a common price index and, as such, can be applied with the use of either initial or remeasured amounts. In periods of high inflation, the relevance of unadjusted initial amounts decreases for many assets and liabilities. Consequently, reporting or disclosing values for assets and liabilities in constant, rather than nominal, initial dollars and potentially identifying gains and losses from changes in purchasing power separately from gains and losses from changes in specific prices may be beneficial in those circumstances. However, the Board determined that exploring this concept was not consistent with the primary objective of the measurement portion of the conceptual framework.

Dissent

63. Mr. Fish and Mr. Granof dissent from the issuance of this Concepts Statement because they believe that it fails to adequately achieve its intended objective—that is, to establish a framework "that can be used as a basis for

establishing consistent accounting and financial reporting standards" (Summary). They believe that the Concepts Statement makes unfounded generalizations as to the virtues and limitations of *both* initial and remeasured amounts and limits the scope of future financial reporting to the traditional financial statements. In their opinion, the Concepts Statement essentially enshrines the status quo. It thereby allows the Board little room to improve the current accounting model and provides it with inadequate guidance to address the specific accounting issues that it is likely to face in the future.

64. Mr. Fish and Mr. Granof believe that the Board would be better served with a carefully nuanced discussion of the advantages and disadvantages of both the initial and the remeasured approaches to reporting assets and liabilities. Moreover, it should emphasize that it is possible to present information in nontraditional formats. For example, financial reports need not focus on only a single measure. Information on *both* initial and remeasured amounts could—and in certain circumstances perhaps should—be presented either on the face of the basic statements themselves or in accompanying notes or schedules. In that way, the Concepts Statement would encourage the Board to enhance the current model in a way that will more fully satisfy the information needs of its constituents.

65. Mr. Fish and Mr. Granof cite several categorical assertions included in the Concepts Statement that they believe are questionable. They believe that the conceptual framework would be better served if these assertions were either eliminated or qualified.

Interperiod Equity

66. Pivotal to the Concepts Statement is the claim that "Initial amounts are more appropriate for assets that are used directly in providing services" (Summary). This contention is elaborated upon in paragraph 17, which asserts that ". . . the use of initial amounts for assets used to provide services, such as capital assets and prepaid items, is consistent with the objective of providing information about the cost of current-year services." In other words, according to the Concepts Statement, the use of initial amounts promotes the objective of affording users the information necessary to assess interperiod equity. That paragraph further contends that the cost of current-year services "traditionally has been viewed as a historical cost-based notion. In the assessment of whether current-year revenues cover the cost of the government's services, the most *relevant cost* (emphasis added) associated with these [long-lived]

assets is the cost that has been incurred by the government—the cost based on the initial amount." It adds that "costs that have not been incurred for assets used to provide services—those based upon remeasured amounts—do not reflect a burden on current resource providers."

67. Mr. Fish and Mr. Granof maintain that the "burden" on current taxpayers should be considered an *economic* burden and that the more relevant costs associated with the use of assets are their remeasured, rather than initial, amounts. It is the remeasured amount that is indicative of the economic sacrifice that the entity makes by using an asset in the provision of services rather than by selling it or using in an alternative manner.

68. Mr. Fish and Mr. Granof believe that the conceptual framework should explicitly acknowledge that initial values provide to a great degree a limited perspective on the cost of government-provided goods and services and should emphasize that, whatever might be the virtues of initial amounts in assessing interperiod equity, remeasured amounts are at least as relevant.

Assets Held for Use Versus Those Held for Sale

69. Mr. Granof and Mr. Fish are of the view that the generalization that "initial amounts are more appropriate for assets that are used directly in providing services" whereas "remeasured amounts are more appropriate for assets that will be converted to cash (for example, financial assets)" (paragraphs 31 and 32) is problematic because there is neither a conceptual nor practical basis for distinguishing between the two types of assets. In their view, *all* assets should be available for sale and hence convertible to cash if the price is right. In recent years, governments have considered selling—and have actually sold the rights to use—assets as diverse as highways and parking meters that in earlier times would never have been thought of as being marketable. Moreover, governments may acquire and use assets with the expectation that they will eventually be sold. For example, a government might acquire and use inner-city land as a golf course, anticipating that when market conditions are favorable, it will sell it to commercial or residential developers.

70. In the same vein, it is difficult to envision any decision or judgment for which the remeasured amount of a capital asset used to provide services need not be taken into account. In addition to the decision of whether to sell or hold assets, remeasured amounts are relevant to the decisions of how much to insure assets for, whether to repair or replace assets, and how much to set aside for the eventual replacement of assets.

71. Mr. Fish and Mr. Granof maintain that the conceptual framework should make it clear that in certain circumstances and for certain types of assets currently being used in providing services, remeasured amounts are essential to assessing a government's financial position and should be considered for incorporation, either into the accompanying notes or schedules or even into the basic financial statements themselves.

Distinguishing between Initial and Modified Initial Amounts

72. Mr. Fish and Mr. Granof note that the Concepts Statement fails to differentiate between initial amounts and modified initial amounts. It states, "The amount at which an asset or liability is initially reported may be adjusted over time, such as through depreciation or impairment. The resulting net amount still is considered to be an initial amount because it is derived from the amount at which the asset or liability was initially reported" (paragraph 11). This failure to distinguish between the two leads to unsupportable generalizations. Most notably, the Concepts Statement claims that 'the reliability of information about assets and liabilities reported using initial amounts generally is high" (paragraph 22). Mr. Fish and Mr. Granof disagree with this assertion. Initial amounts of depreciable assets, modified by depreciation, depend on predictions of the years in which the assets will be sold or retired, estimates of any amounts to be received upon sale or retirement, and an assumption as to the pattern in which they will be consumed (for example, straight-line or declining). By no reasonable criteria can the resultant values be considered reliable (that is, verifiable and free from bias), especially those of long-lived infrastructure assets, which constitute the largest dollar percentage of the assets of many governments.

73. Mr. Fish and Mr. Granof believe that the conceptual framework should distinguish between initial amounts and modified initial amounts. It should underscore that modified initial amounts may not be as reliable as initial amounts, or even remeasured amounts, and hence may be of limited relevance in assessing a government's fiscal wherewithal.

Assets Converted to Cash

74. Mr. Fish and Mr. Granof take exception to the unequivocal statement that "remeasured amounts are more appropriate for assets that will be converted to cash (for example, financial assets)" (paragraph 32). Inventory held for sale is indisputably an asset expected to be converted to cash. Hence, one can infer from the Concepts Statement that inventory held for sale should be reported at remeasured amounts. For some governments, especially states that sell alcoholic beverages, both the value of inventories and the revenue from their sale, may be significant.

75. Mr. Fish and Mr. Granof maintain that there are legitimate reasons for reporting the initial amounts of inventories held for sale (as has been long-standing practice for both governments and businesses) and that decisions as to how inventories held for sale should be valued should be reserved for standards-setting activities. They believe, therefore, that the conceptual framework should include a qualification to the assertion that remeasured amounts are more appropriate for assets that will be converted to cash by acknowledging that there might be exceptions.

Understandability

76. The Concepts Statement asserts that "remeasurement of assets and liabilities and the reporting of unrealized gains and losses resulting from remeasurement may be less understandable than use of initial amounts for some types of assets and liabilities, such as capital assets" (paragraph 21). Yet, Mr. Granof observes, he is unaware of any empirical evidence to back this claim. Furthermore, he believes, the reporting of unrealized gains and losses from remeasuring capital assets would seem to be no more complex or less understandable than those from remeasuring financial assets, which this Concepts Statement apparently deems appropriate.

77. Mr. Granof believes that the conceptual framework should stress that understandability should be an essential consideration in determining how to measure and report assets and liabilities. However, in the absence of supporting empirical evidence, it should avoid claims as to whether one basis of measurement is more or less understandable than another.

Focus on Traditional Statements

78. The Concepts Statement contends that ". . . only a single measurement approach *should* be applied to a specific asset or liability . . . (paragraph 15; emphasis added). A central theme of this dissent is that standards setters should look beyond the traditional financial statements and, when appropriate, should require governments to provide information on both initial and remeasured amounts. Mr. Granof can envision statements that provide this information even on the basic financial statements. However, the scope of this Concepts Statement appears to eliminate this alternative.

79. The use of more than one measurement approach can be accomplished, for example, by presenting data in multiple columns or by showing both initial and remeasured amounts along with the required adjustments to reconcile one with the other.[3] Further, one measurement approach can be taken in a statement of financial position and another in a statement of resource flows, with the apparent inconsistencies being reconciled either in a separate statement or in a special section of one of the two statements.[4] Moreover, as governments of the future implement electronic reporting, other options may present themselves.

80. Mr. Granof does not believe that a conceptual framework should restrict or even discourage future Boards from fashioning accounting standards by which governments can achieve multiple objectives within the same set of financial statements and thereby enhance the decision utility of financial reports. Therefore, they believe that the scope of the conceptual framework should be broad enough to ensure that more than one measurement approach could be applied for a specific asset or liability and that it should encourage presentation of information on both initial and remeasured amounts whenever doing so would advance the objectives of financial reporting.

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[3]The Federal Accounting Standards Advisory Board permits this latter approach with respect to inventory held for sale. See Statement of Federal Financial Accounting Standards 3: *Accounting for Inventory and Related Property* (October 1993), pars. 17–26.

[4]Paragraph 320-10-35-1 of the *FASB Accounting Standards Codification*® requires that in periods subsequent to acquisition, available-for-sale securities be remeasured and reported on the balance sheet at their remeasured amounts. However, it also requires that the resultant unrealized holding gains and losses be excluded from earnings and hence not reported on the income statement. Instead, the unrealized holding gains and losses must be reported as "other comprehensive income," which is typically reported in a separate schedule.

Conclusion

81. Mr. Fish and Mr. Granof believe that the issues the GASB will face in the future are likely to involve complex transactions. To be useful in providing meaningful guidance, a conceptual framework should be carefully nuanced, acknowledging that subtle distinctions between seemingly similar assets and liabilities may require that they be measured and reported differently. Unqualified generalizations are not appropriate. It is not disputed that the purpose of a conceptual framework is to ensure consistency in financial reporting. Mr. Fish and Mr. Granof are concerned, however, that this Concepts Statement, by setting forth absolute directives as to when one measurement is more appropriate than another, will go beyond ensuring consistency and thereby limit the Board in its ability to develop innovative solutions to the issues it will be required to address.

Appendix C

CODIFICATION INSTRUCTIONS

82. The section that follows updates the June 30, 2013, *Codification of Governmental Accounting and Financial Reporting Standards*, for the effects of this Concepts Statement. Only the paragraph number of this Concepts Statement is listed if the paragraph will be cited in the Codification.

[Add to Appendix B as follows:]

GASB CONCEPTS STATEMENTS **APPENDIX B**

Concepts Statement No. 6

In March 2014, the GASB issued Concepts Statement No. 6, *Measurement of Elements of Financial Statements.* Because Concepts Statements are not authoritative, this Statement has not been integrated into the Codification, but instead has been reproduced here (without appendices).

Measurement of Elements of Financial Statements

[Insert GASBCS 6, ¶1–¶43.]

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