February 11, 2010

Memorandum

To: Members of the Board

From: Penny Wardlow, Consultant

Through: Wendy M. Payne, Executive Director

Subj: **Conceptual Framework: Measurement Attributes**[1]
Preballot Draft—TAB G

MEETING OBJECTIVE

- To review a preballot draft of a final statement (Concepts Statement 7) and identify any changes that should be incorporated into a ballot draft

- To select a date for balloting and a date for issuance of the concepts statement.

BRIEFING MATERIAL

This memo covers the changes proposed to the Exposure Draft (ED). The attachments are:

Attachment 1: Marked-up preballot draft
Attachment 2: Clean preballot draft
Attachment 3: List of responses received to the ED. Board members have received copies of the responses. However, additional copies will be provided upon request.
Attachment 4: Summary of the measurement attributes project and Board decisions

CHANGES PROPOSED TO THE ED

At the December meeting, members discussed substantive changes proposed in some of the responses. The Board requested clarification of the objective of the statement (para. 2), as discussed at the meeting, as well as additional information to clarify how

[1] The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

the measurement attributes might be used. In addition to these changes, the preballot draft includes editorial changes. Some of these changes were requested by members at the December meeting. Other changes were proposed in some of the responses received. The staff also made a few changes for consistency with other changes or to simplify the text without changing the meaning.

This memo refers to the changes shown in the preballot draft (marked-up version, Attachment 1), in the same order that they appear in the draft. Rather than approve each item, members are requested to identify any modifications they wish to make to these changes or elsewhere in the draft.

1. Executive Summary, 2nd par, and Introduction, par. 2, "Objective"

These clarifications of the "principal question" that concerned two respondents were agreed at the December meeting. Staff has added examples of "initial" and "remeasured" amounts following a suggestion in Response No. 14. Staff also has made minor editorial revisions to ensure consistency between par. 2 of the text and the Executive Summary.

2. Par. 7a and 7b

Staff has added a definition of "measurement approach" in par. 7a, as suggested in Responses Nos. 5 and 15. (This also facilitated deletion of the reference to a "principal question" in par. 7a.) Staff also has clarified the meaning of "measurement method" in par. 7b and provided a clearer link between that concept and "measurement attribute." Also, par. 7b now includes an example, beginning in line 21, of the use of all three concepts—measurement approach, measurement attribute, and measurement method—as suggested in Response No. 7.

3. Par. 23

The wording has been revised for simplification, following a suggestion in Response No. 15. For example, the reference to "depreciation methods" (line 33) was not appropriate, given that the example refers to "methods adopted for calculating depreciation or amortization."

4. Par. 26

The revisions made in this paragraph were proposed in Response No. 15. The comment received was: "Accounting estimates involve management judgment related to matters that are inherently uncertain; however, such judgment has to be supported by sufficient evidence. The use of 'hypothetical' and 'misleading' [in the ED] implies that accounting estimates are not supported by sufficient evidence and therefore not reliable." Staff believes the revision is appropriate but has retained the last sentence of the ED paragraph, which the respondent had proposed deleting.

5. Par. 36

The clarification responds to a Board member's question as to why replacement cost, value in use, and fulfillment cost would not be used for assessing initial amounts.

6. Fair value: Par. 39

The addition is to provide examples of the use of fair values in established markets.

7. Settlement amount: Pars. 43 and 44

The reason for the change in the definition in par. 43 is that some of the text in par. 44 reflects legal debt notions more than expectations. "Can be realized" and "can be liquidated" would avoid a potential conflict.

In par. 44, staff has responded to the Board's request for more information about how this attribute could be used. References have been included to accounts receivable, accounts payable, and loan guarantees. Staff also has included a clarification that a settlement amount is objectively determined based on a transaction with an external party (albeit with possible adjustments by the reporting entity). This helps to distinguish the settlement amount of a liability from its fulfillment cost, which is an entity-specific amount, as is its equivalent "value in use" for assets. Members requested this clarification and a similar comment requesting a clearer distinction between settlement amount and fulfillment cost also is included in Response No. 15.

8. Replacement cost: Pars. 47 and 49

Staff has added an example in par. 47 of the use of replacement cost, which helps clarify why it differs from fair value. The modification to the wording of par. 49 is for simplification.

9. Value in use: Pars. 51 and 52

The additional language in par. 51 is to help clarify the distinction between value in use and fair value and includes examples of when value in use might be appropriate. Making these changes suggests that the previous reference in par. 51 to inter-entity comparability fits better at the end of par. 52. Staff also has deleted the previous reference in par. 51 to "similar exchanges between other parties" (see deletion from line 13). As suggested in Response No. 15, the need for that phrase is unclear.

10. Fulfillment cost: Pars. 53 and 54

The definition (par. 53) includes "promises that constitute a liability" in lieu of "obligations," which was included in the ED definition. The proposal is included in Response No. 15, with the reasoning that "obligations" are elements of budgetary-basis financial statements, whereas the concepts statement addresses elements of accrual-basis financial statements. (The same substitution is made in par. 54.) Staff believes that the stated scope (par. 2) of the concepts statement and the context in which "obligations" is used should not encourage readers to infer a reference to budgetary-basis financial statements. Nevertheless, staff has made the change to preclude the possibility of confusion.

In par. 54, staff has added language to clarify the distinction between fulfillment cost and settlement amount (for liabilities). This is consistent with changes made to the discussion of settlement amount. (See point 7 above.) The explanation in par. 54 includes environmental remediation as an example, which previously was mentioned only in par. 55 (line 10).

QUESTIONS:

1. **Does the Board disagree with any of these changes?**

2. **Does the Board have additional changes?**

3. **When does the Board wish to receive a ballot draft and ballot?**

4. **What should be the issue date of the final Concepts Statement?**

CONCLUSION

If the Board agrees, staff will incorporate any changes requested by the Board at the February meeting in a ballot draft of a final concepts statement.

ATTACHMENT 1
Marked-Up Version
Measurement--February 2011

Federal Accounting Standards Advisory Board

Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording

Statement of Federal Financial Accounting Concepts 7

Preballot Draft

MM dd, 2011

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or "the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board."
- "Mission Statement: Federal Accounting Standards Advisory Board", exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB's website at: www.fasab.gov.

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STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

This Statement of Federal Financial Accounting Concepts (SFFAC) is the seventh in a series of concepts statements intended to set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

The Federal Accounting Standards Advisory Board's (FASAB or "the Board") conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting. The most direct beneficiaries of the FASAB's concepts statements are the Board itself and preparers and auditors of federal financial reports. The statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives.

Knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting. That knowledge should enhance the usefulness of, and confidence in, federal financial accounting and reporting.

Concepts statements enhance preparers' and auditors' understanding of the common foundation and reasoning employed in considering alternatives. The generally accepted accounting principles (GAAP) hierarchy provides that statements of federal financial accounting standards constitute level A (the highest level) guidance. Statements of federal financial accounting concepts are not GAAP. Instead, concepts statements constitute "other literature." Other literature may only be relied upon by financial statement preparers and auditors under the circumstances indicated in Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* (SFFAS 34).

In developing and amending accounting standards, the Board looks to concepts statements for guiding principles and also considers relevant existing standards and guidance issued by the Board and other standard-setting bodies. Until the Board amends existing standards, the Board expects practice to be governed by the

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accounting principles embodied in the four levels of the GAAP hierarchy specified in SFFAS 34. Thus, the Board distinguishes between material presented in concepts, which are used to guide Board deliberations on future GAAP, and accounting principles presented in standards, which constitute current GAAP.

For federal entities, in the absence of specific authoritative literature applicable to a transaction or event, it should be possible to report the event or transaction by selecting an established accounting principle for a similar transaction or event that appears appropriate when applied in a similar manner. In the unusual case where an analogy cannot be drawn to established authoritative literature, the GAAP hierarchy established in SFFAS 34 permits consideration of other literature including concepts statements. Consideration of individual concepts statements will be helpful but often may not provide sufficient guidance in resolving emerging issues. Therefore, the Board encourages careful study of the conceptual framework and established practice in resolving such issues.

Statements in this series describe concepts and relations that will underlie future federal financial accounting standards and practices and in due course will serve as a basis for evaluating existing standards and practices. With issuance of this statement, the series of concepts statements comprises:

- SFFAC 1, *Objectives of Federal Financial Reporting* (includes the qualitative characteristics of information in financial reports)
- SFFAC 2, *Entity and Display*
- SFFAC 3, *Management's Discussion and Analysis*
- SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.
- SFFAC 6, *Distinguishing Basic Information, Required Supplementary*
- *Information, and Other Accompanying Information*
- SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*

Like other pronouncements of the FASAB, Statements of Federal Financial Accounting Concepts remain in effect until amended, superseded, or withdrawn by appropriate action under the Board's Rules of Procedure.

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Executive Summary

In financial reporting, measurement is the act or process of assigning dollar amounts to the elements of the financial statements (assets, liabilities, and so forth). This Concepts Statement addresses the measurement of the elements of accrual-basis financial statements of federal government entities in periods after amounts are initially recorded. It identifies and elucidates conceptual issues for the Board to consider when deliberating measurement standards in the future. It does not change existing standards.

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A principal question for the Board to resolve in future standards is whether and under what circumstances it might be more useful for users' decision making to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded ("initial amount"), i.e., the historical cost or historical proceeds, subject to appropriate adjustments for amortization, depreciation, or depletion, or (b) at an amount measured at each financial statement date ("remeasured amount"), such as the fair value. This Concepts Statement discusses the advantages and disadvantages of different alternatives for measurement. However, conclusions as to which measurement approach or attribute may be selected for reporting an element under different circumstances are deferred for consideration in the standard-setting process. Standard-setting deliberations also would appropriately consider cost–benefit implications and other practical reporting concerns.

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The measurement approach (initial or remeasured amounts), attributes, and methods used for measuring assets and liabilities affect how the information is reported and interpreted. The analysis in this Concepts Statement includes a comparison of the advantages and disadvantages for achieving the federal financial reporting objectives (SFFAC 1) of continuing to report an initial amount after the recognition period versus remeasuring an asset or liability at each financial statement date. Also included is a discussion of how well attributes that are commonly applied or available for measuring assets and liabilities, such as fair value and settlement amount, comply with the qualitative characteristics (SFFAC 1). The analysis suggests that, when the goal is to help ensure that reported information achieves several financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, attributes, and methods may be needed to convey useful information about different transactions and underlying events. The identification and discussion of the different measurement possibilities is expected to enhance the understanding of users and preparers as well as the Board's deliberations of future standards.

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Introduction

1. In financial reporting, measurement is the act or process of assigning dollar amounts to the elements of the financial statements. This Concepts Statement addresses the measurement of the elements of accrual-basis financial statements of federal government entities in periods after their initial recording. The elements are assets, liabilities, net position, revenues, and expenses, as defined in Statement of Federal Financial Accounting Concepts 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.* Different measurements and considerations may apply for financial statements that are not presented on the accrual basis, such as a statement of budgetary resources, statement of social insurance, or statement of long-range fiscal projections, and for required supplementary information and other types of general purpose financial reporting.

Objective

2. The objective of this Statement is to identify and elucidate the conceptual issues relevant to establishing measurement standards in the future for accrual-basis financial statements.[1] A principal question for the Board to resolve in future standards is whether and under what circumstances it might be more useful for users' decision making[2] to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded ("initial amount"), i.e., the historical cost or historical proceeds, subject to appropriate adjustments for amortization, depreciation, or depletion, or (b) at an amount measured at each financial statement date ("remeasured amount"), such as the fair value. This Concepts Statement discusses the advantages and disadvantages of different alternatives for measurement. However, conclusions as to which measurement approach or attribute may be selected for reporting elements under different circumstances are deferred for consideration in the standard-setting process. Standard-setting deliberations also would appropriately consider cost–benefit implications and other practical reporting concerns.

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Focus on Assets and Liabilities

3. The measurement concepts in this Statement focus on assets and liabilities because remeasuring elements after their initial recording is only directly

[1] This Statement does not establish federal financial accounting standards or change existing standards.
[2] References in this Statement to usefulness for decision making encompass decisions related to accountability, management, and other needs of internal and external users, as discussed in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting* (SFFAC 1).

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applicable to assets and liabilities, insofar as the other elements are derived from them.[3] That is, balance sheets and operating statements articulate and, therefore, the measurement and recognition of changes in assets and liabilities affect reported revenues and expenses.

4. Expenses for a reporting period result from consuming assets and incurring liabilities, as well as from accounting adjustments that increase existing liabilities or decrease existing assets. Revenues result from acquiring assets and from accounting adjustments that increase existing assets or decrease existing liabilities. Consequently, expenses and revenues arise either from current-period transactions in which the resulting initial and remeasured amounts are the same (e.g., salaries expense and tax revenue), or from adjustments to existing assets and liabilities, such as for changes in the applicable discount rate (e.g., increases in pension liabilities), or for decreases in liabilities due to recognizing revenues for amounts previously reported as deferred revenues.

Financial Reporting Objectives and Qualitative Characteristics

5. The concepts in this Statement are considered with reference to the federal financial reporting objectives and the qualitative characteristics of information in financial reports.[4] The most relevant objectives to the questions addressed in this Statement are:

   a. *Budgetary Integrity*. To help the reader determine how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities

   b. *Operating Performance.* To help the reader determine

      (1) The costs of providing specific programs and activities and the composition of, and changes in, these costs

      (2) The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs

      (3) The efficiency and effectiveness of the government's management of its assets and liabilities

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[3] The balance sheet element of net position is not separately addressed because it is defined as the difference between total assets and total liabilities.

[4] SFFAC 1.

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c. *Stewardship.* To help the reader determine whether

(1) The government's financial position improved or deteriorated over the period

(2) Future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due

(3) Government operations have contributed to the nation's current and future well-being

6. The qualitative characteristics of information in financial reports are:

a. *Relevance*—The capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations

b. *Understandability*—The quality of information that enables users to perceive its significance

c. *Reliability*—The quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent

d. *Comparability*—The quality of information that enables users to identify similarities in and differences between two sets of economic phenomena

e. *Consistency*—Conformity from period to period with unchanging policies and procedures

f. *Timeliness*—Having information available to a decision maker before it loses its capacity to influence decisions

Concepts

Measurement Approaches and Attributes

7. The questions surrounding the measurement of assets and liabilities in accrual-basis financial statements can be grouped into two broad areas of consideration:

   a. The *measurement approach*. The measurement approach is whether an asset or liability is reported at the amount initially recorded ("initial amount"), i.e., the historical cost or initial-transaction amount, with appropriate adjustments for amortization, depreciation, or depletion, or at an amount measured at each financial statement date ("remeasured amount"), such as the fair value. A different measurement approach may be appropriate for different assets and liabilities.

   b. The *measurement attribute* (or measurement basis).[5] A measurement attribute is a measurable characteristic of an asset or liability, such as its fair value or settlement amount.[6] Major questions are: Which attributes result in more useful information for decision making, and what factors and circumstances may contribute to that result, such as the class of asset or liability, the type of transaction, and variations in users' decision-making needs? Also, the selection of a measurement attribute often entails the selection of a *measurement method*. For example, if the measurement approach for a particular asset is to report a remeasured amount and the measurement attribute selected is fair value, possible measurement methods could be to research quoted market prices, if available, or to obtain a professional appraisal. Different measurement attributes and methods may be used for different assets and liabilities, and the selections made can affect the usefulness of reported information for decision making.

8. The next section discusses different measurement approaches with reference to the financial reporting objectives. A later section discusses measurement attributes and methods with reference to the qualitative characteristics.

Measurement Approaches

9. The most basic accounting and financial reporting questions relate to recognition and measurement. When should a government measure the existence of, or changes in, the value of an asset or liability? When and how

[5] Both terms are currently in use in the accounting measurement literature and convey a similar concept.
[6] These and other measurement attributes are defined and discussed in a later section.

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should revenues and expenses resulting from these changes be measured and recognized? Should a government record changes in economic values that have occurred, even though no transaction by the government has taken place? Would the reliability of financial statements suffer if such changes were accounted for as they occur, or would the failure to account for them reduce the decision-usefulness and representational faithfulness of financial statements? Financial reporting standards traditionally have permitted or required recognition of value changes for some assets and liabilities but not for others. The issues are complicated because value changes may be due to changes in interest rates or service potential, or to different types of price changes.

Changes in Specific Prices Versus Changes in the General Price Level

10. Prices of goods and services increase or decrease for primarily two reasons:

    a. *A change in the demand for or supply of a specific product*, such as materials or equipment, which affects the market value of the product. The accounting and financial reporting question is whether these changes should be included in the balance sheet in the period in which they occur or entirely in the period when an asset or liability is disposed of or settled. For flows statements, the question is whether they should report only realized gains and losses or also the unrealized gains and losses generated by price changes before disposition of the assets or liabilities ("holding" gains and losses).

    b. *A change in the purchasing power of the monetary unit* (e.g., the dollar). That is, taking into account all goods and services bought and sold in the economy, the general price level might change such that the monetary unit buys more or less today than in a previous period. Although the number of monetary units required to buy a product might change, the relationship between the price of that product and the price of other goods or services will remain the same. For example, if the price of machine A was higher than that of machine B before the change in purchasing power, it would also be higher afterward, because the change in purchasing power would affect both prices equally. Increases (or decreases) in the number of monetary units required to purchase goods and services are referred to as inflation (or deflation).

11. Whether inflation is taken into account can affect how information is reported and interpreted. For example, assume that a federal agency acquired land for $100,000 in December 20x0 and sold it in December 20x1 for $125,000—an apparent gain of $25,000. Suppose, however, that during the year the general level of prices increased by 15 percent. That is, goods and services that could

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have been purchased in December 20x0 for $1,000 would have cost $1,150 in December 20x1.[7] Thus, in the example, the land acquired for $100,000 in 20x0 dollars can be thought of as having a remeasured cost of $115,000 ($100,000 x 115/100) in 20x1 dollars. The gain on sale, expressed in *constant* dollars—in this case, 20x1 dollars—is therefore only $10,000 ($125,000 - 115,000), rather than $25,000 in *nominal* (unadjusted) dollars. The $15,000 difference between reporting the gain on sale in nominal dollars and reporting it in constant dollars is relevant to users' assessment of the stewardship and operating performance of the agency's management.

Four Possible Measurement Approaches

12. The distinction between changes in *specific prices* (or values) and changes in the *general price level* (purchasing power of the dollar) suggests four possible measurement approaches:

    a. *Initial amounts/nominal dollars*. This is the traditional measurement approach. Assets and liabilities are stated at their initial (historical cost or historical proceeds) amounts, without adjustment for changes in prices, whether general or specific.

    b. *Initial amounts/constant dollars*. Assets and liabilities are stated at their initial amounts expressed in dollars as of the balance sheet (current) date, rather than dollars of the acquisition date, so that general price level adjustments are recognized.

    c. *Remeasured amounts/nominal dollars*. Assets and liabilities are adjusted to take into account changes in the prices of specific goods or services, but no separate recognition is given to changes in the general price level.

    d. *Remeasured amounts/constant dollars*. Assets and liabilities are remeasured to take into account the current prices of goods and services—that is, adjustments are required for changes in the general price level as well as for changes in specific prices.

13. The following expansion of the earlier example compares results for the four measurement approaches. The results are illustrated in Table A.

[7] Changes in the general price level generally are stated as an index value. For example, the implicit price deflator for gross domestic product (GDP deflator), maintained by the U.S. Department of Commerce, Bureau of Economic Analysis, expresses prices of various years as percentages of prices of a selected base year, which is assigned a value of 100. If, for example, 20x0 is the base year (100) and prices in 20x1 are 15 percent higher, then the GDP deflator for 20x1 would be 115.

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Example

A federal entity purchased land for $100,000 in December 20x0. The land increased in value to $125,000 by December 20x1. The entity retained the land for another year and sold it on December 31, 20x2 for $130,000. The general price level was 100 when the entity acquired the land, 115 on December 31, 20x1, and 127 on December 31, 20x2.

On December 31, 20x1, the land was worth $125,000—meaning, the entity could have realized a $25,000 nominal dollar gain by selling it. Further analysis reveals, that $15,000 of that gain resulted from general price level changes ($100,000 x 115/100) while the remaining $10,000 resulted from specific price increases. The next year, 20x2, the land reached a value of $130,000 and management sold it for a net gain of $30,000 over the two-year period.

All four measurement approaches result in a $30,000 gain being reported, but different information is available for each of the two years. Under the initial amounts/nominal dollars approach, the entire $30,000 gain is reported in 20x2. Using the initial amounts/constant dollars approach, $15,000 of the gain ($115,000 - 100,000) is reported in 20x1 and $15,000 in 20x2 ($130,000 - 115,000). Under both the remeasured amounts approaches, $25,000 of the gain ($125,000 - 100,000) is reported in 20x1 and $5,000 in 20x2 ($130,000 - 125,000). Further analysis reveals that, under both approaches reported using constant dollars, the purchasing power gain in 20x2 is $13,043 [$125,000 x (127/115) – 125,000]. Thus, under the initial amounts/constant dollars approach, the remainder of the 20x2 gain ($15,000 – 13,043 = $1,957) is attributed to a specific price increase. In contrast, under the remeasured amounts/constant dollars approach, the specific price change in 20x2 is a loss of $8,043 ($5,000 – 13,043).

Such differences can affect users' evaluation of operating performance. For example, the increase in the value of the land attributable to the 20x1 management team would be either zero or $15,000 under the initial amounts approaches versus $25,000 under the two remeasured amounts approaches.

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TABLE A. Purchase and Sale of Land: Comparative Results under Four Measurement Approaches

Measurement Approach

	Initial amounts/ Nominal dollars	Initial amounts/ Constant dollars	Remeasured amounts/ Nominal dollars	Remeasured amounts/ Constant dollars
Acquisition cost = book value at 12/31/x0 (20x0 dollars)	$100,000	$100,000	$100,000	$100,000
Reported book value of land, 12/31/x1	100,000	115,000[1]	125,000[2]	125,000[2]
Current value of land, 12/31/x1	125,000	125,000	125,000	125,000
Reported total gain, 20x1	0	15,000[3]	25,000[4]	25,000[4]
— Purchasing power gain	0	15,000	0	15,000[5]
— Specific price gain	0	0	25,000	10,000
Sale price of land, 12/31/x2	130,000	130,000	130,000	130,000
Reported total gain, 20x2	30,000[6]	15,000[7]	5,000[8]	5,000[8]
— Purchasing power gain	0	13,043[9]	0	13,043[9]
— Specific price gain/(loss)	30,000	1,957	5,000	(8,043)

[1]$100,000 x 115/100 = $115,000
[2]Market value at 12/31/x1
[3]$115,000 – 100,000 = $15,000
[4]$125,000 – 100,000 = $25,000
[5]($100,000 x 115/100) – 100,000 = $15,000
[6]$130,000 – 100,000 = $30,000
[7]$130,000 – 115,000 = $15,000
[8]$130,000 – 125,000 = $5,000
[9]($125,000 x 127/115) – 125,000) = $13,043

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14. Although certain federal government statistics are reported in constant dollars, there has not been a strong call to adjust the financial statements in recent decades, when inflation has been low. However, should high inflation be experienced in the future, consideration might be given to reporting financial statement information in constant dollars to assist users in assessing an entity's financial position and operating results after adjusting for inflation. If so, an examination of the advantages and disadvantages of reporting in constant dollars would be appropriate at that time.

Focus of This Statement

15. The remainder of this Statement focuses on the differences between reporting initial amounts and remeasured amounts in nominal dollars (measurement approaches a. and c. in the previous section). Under approach a., initial amounts are not adjusted for changes in either general or specific prices. Under approach c., remeasured amounts and resulting holding gains and losses incorporate the combined effects of both general and specific price changes without separately identifying them.

16. The analysis in this Statement addresses assets and liabilities in general. However, a particular financial reporting standard may permit or require the reporting of initial amounts for some assets and liabilities and remeasured amounts for others, based on the anticipated usefulness to decision makers of one approach versus the other for the reporting issues addressed in the standard.

Initial Amounts, Remeasured Amounts, and the Financial Reporting Objectives

17. This section discusses initial amounts and remeasured amounts in general and the extent to which each measurement approach helps achieve the federal financial reporting objectives. Different measurement attributes are discussed in a later section on "Measurement Attributes and Qualitative Characteristics."

Initial Amounts Versus Remeasured Amounts

18. Traditionally, the amount at which a transaction is reported has been determined in a manner appropriate to the nature of the transaction. For example, assets acquired by purchase are initially reported at the amount of the consideration surrendered by the purchaser (plus any additional costs incurred to bring the asset to a serviceable condition). Assets acquired through donation are reported at their fair value at the date of donation. Accounts receivable and payable are reported at their anticipated net settlement amounts, which are

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future exit values.[8] Examples include reporting accounts receivable at net realizable value and reporting accounts payable at invoice amount less any discounts (e.g., for prompt payment). Once recorded, the amounts initially determined are often referred to as the "historical cost" of an asset or "historical proceeds" of a liability, regardless of how they were determined. In this Statement they are referred to as *initial amounts*.

19. Certain features of a transaction may make identification of an initial amount more difficult. For example, transactions may have associated costs, such as legal fees, which generally are reported as part of the initial amount. A single transaction may involve more than one asset or liability, requiring the total transaction amount to be allocated to the components. Indirect costs, such as certain labor costs, may need to be allocated to constructed assets through cost accounting procedures. Initial amounts for longer lived assets and liabilities generally are allocated to reporting periods. For example, capital assets are depreciated or amortized over their estimated useful lives. Discounts or premiums from issuance of debt are amortized or accreted over the term of the debt. Many of these features present practical questions to be resolved when setting standards. They do not represent advantages or disadvantages within the scope of this Statement.

20. Remeasured amounts of assets and liabilities are determined using one of several possible measurement attributes that reflect economic conditions at the financial statement date, including, for example, fair value or settlement amount. Remeasurement updates a previously determined carrying amount to reflect a change in the economic value of an asset or liability that has occurred since the previous financial statement date. A remeasured amount thus differs from an adjustment to an initial amount that does not reflect a change in value. For example, an increase in the accumulated depreciation balance on a building does not change the economic value of the building and does not constitute remeasurement of its carrying amount. Unless the value of the building itself is remeasured at, for example, its fair value, the reported amount will continue to be considered the initial amount. In contrast, an adjustment to an allowance for uncollectible accounts receivable due to an increased risk of noncollection constitutes remeasurement of the carrying amount, even when the gross amount of receivables is not remeasured, because the adjustment reflects a change in the economic value of the receivables—the anticipated net settlement amount.

[8] An exit value is the price or amount at which an asset could be sold or a liability extinguished. An entry value is the estimated price at which an asset which is currently on the books may be purchased. (*Kohler's Dictionary for Accountants*, sixth edition, W. W. Cooper and Yuji Ijiri, eds.; Prentice-Hall, Inc., Englewood Cliffs, N.J., 1983). Entry and exit values are referred to again in the section on measurement attributes.

Achieving the Financial Reporting Objectives

21. Assessments of which nominal-dollar measurement approach—initial amounts or remeasured amounts—better enables achievement of one or more of the financial reporting objectives vary according to the kinds of information users need and the decisions to be made.[9] In practice, federal financial statements traditionally have followed a "mixed-attribute" model. That is, some assets and liabilities, such as general property, plant, and equipment, have been reported at initial amounts (adjusted for depreciation, depletion, or amortization, if applicable), and others, such as direct loans and loan guarantees, have been reported at remeasured amounts. Appendix A contains additional examples of initial and remeasured amounts reported in the federal government-wide consolidated balance sheet as of the date indicated.

22. Given the objective of reporting information that is useful for accountability and users' decision-making needs and the range of different users and information needs to be addressed, it is likely that federal financial statements will continue to include both measurement approaches as well as different measurement attributes and measurement methods under each approach. Consequently, this Concepts Statement identifies advantages and disadvantages of reporting initial amounts and remeasured amounts and of applying different measurement attributes, but no conclusions are drawn as to which measurement approach or attribute may be preferable either in general or in particular circumstances. Such conclusions are the province of the standard-setting process, in the course of which the concepts in this Statement will be considered on a project-by-project basis, along with cost–benefit considerations and other practical reporting concerns that may arise under different alternatives.

23. Continuing to report assets and liabilities at their initially recorded amounts in periods following their acquisition or incurrence is a long-established approach to financial reporting and users are accustomed to that approach. Initial amounts generally are reliable and objective, based on documented evidence, although subjectivity subsequently may be introduced through the assumptions or methods adopted for calculating depreciation or amortization, such as depreciable lives and salvage values, or, as previously indicated, through the allocation of indirect costs. Initial amounts establish a historical record of transactions that have occurred that facilitates the control and safeguarding of resources.

[9] SFFAC 1 describes the users of federal financial reporting and their decision-making needs.

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24. Proponents cite these advantages in support of reporting at their initial amounts the costs of inventory and capital assets and the resulting costs of providing programs and activities (referred to in the operating performance objective). These proponents believe that it is not useful to remeasure and report assets at their potential sales prices or settlement amounts when they are being held to provide services, rather than for sale. In this view, assets held to provide services should be reported at the amounts paid for them (or other initial amounts), and the reported cost of using them each period should be a function of that amount. With this approach, the initial amounts of assets will be allocated to service costs over the periods when the assets are used to provide services, based on the prices paid for the assets.

25. Many also support reporting initial amounts for assets used to provide services because they believe that the adequacy of taxes and other revenues should be assessed based on the amounts actually expended to acquire existing assets, rather than on the current-period costs of equivalent assets or service potential. These proponents suggest that reporting program and activity costs based on the initial amounts facilitates users' ability to assess how the use of budgetary resources relates to the costs of operations (budgetary integrity objective), whereas reporting costs each period at remeasured amounts does not. Initial amounts also may be advocated when there are significant barriers to the realization or settlement of a remeasured amount.

26. Proponents of reporting initial amounts hold that the reliability and objectivity of initial amounts is critical for users' decisions. Reporting remeasured amounts may introduce significant uncertainties and subjectivity into the information provided to users because of the level of judgment involved in developing these estimates. Those who hold these views point out that remeasured information may reduce the reliability of financial statements. Further, they note that information that is not reliable is rarely relevant.

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27. Supporters of remeasurement believe that users require up-to-date information about the price of assets held for sale or to generate future cash inflows. Further, they believe that users also need information about the costs of programs and other ongoing activities based on the current costs of the underlying assets, particularly infrastructure and other capital assets that likely were acquired many years ago. In this view, a comparison of current-period taxes and other revenues with remeasured (current) costs of the resources consumed in providing goods and services is more relevant for assessing operating performance, stewardship, and the sustainability of services than is a comparison with initial amounts that are no longer current. To provide up-to-date information on the costs of services, the underlying assets need to be reported at a remeasured amount, such as replacement cost.

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28. Similarly, supporters of remeasurement believe that remeasured amounts of assets and liabilities, especially for assets acquired many years ago, are more relevant than initial amounts for assessing an entity's current financial position, service potential, and ability to meet obligations when due, as well as the magnitude of the entity's current and probable future resource needs. Over time, critical factors, such as prices and interest rates, change, yet initial amounts reflect the prices and interest rates in effect at the various transaction dates, not at the reporting date. For example, it is possible for assets acquired at different dates to be reported at different amounts, even though they have the same service potential. Similarly, it is possible for liabilities incurred at different dates to be reported at the same initial amount, even though they do not represent equivalent economic claims on the entity's resources, because they bear different interest rates.

29. The contrasting views about the usefulness of initial amounts versus remeasured amounts suggest that an important consideration is whether the reporting objectives generally are more concerned with informing users about how efficiently and effectively budgetary resources were ultimately used to deliver goods and services, or about how all economic resources were used. The principal difference between the two goals is the treatment of the effects of price changes (unrealized or "holding" gains and losses) on reported assets and liabilities and related operating costs. The different treatments provide different information to users of the financial statements.

30. If an entity reports initial amounts, the statement of net cost reports the expiring benefits from previously expended budgetary resources only when the underlying assets are consumed or sold. The statement of net cost does not provide information about changes that occur in resource prices or the values of existing assets in the intervening periods. In contrast, if the entity reports remeasured amounts, the information reflects the capacity of the underlying assets to provide goods and services in changing circumstances. The statement of net cost captures the period-to-period changes in asset amounts (holding gains and losses) in the periods in which they occur and reports the resources consumed at current amounts, information that can help users assess stewardship and operating results each period.

31. The reporting of holding gains and losses can help fulfill the financial reporting objectives by providing information about management's performance that is useful to agency and program managers as well as to taxpayers and other users of financial reports, including, for example, the economic results of decisions to hold rather than to sell assets. This information may enhance understanding of the costs of programs and activities based on current costs, how costs are changing, the sufficiency of current resources, and future

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resource needs. The information also may help users assess the efficiency and effectiveness of the management of the entity's assets and liabilities, including whether a change in financial position resulted from management's operating decisions or from changes in prices beyond management's control. These kinds of information are available from the financial statements when holding gains and losses are separately displayed in the statement of net cost. Reporting initial amounts without adjustment for holding gains and losses (and excluding amortization, depreciation, and depletion) may help users compare the resources consumed for goods and services with the resources provided for those purposes. On the other hand, without information about current prices it is difficult for users to assess future resource needs and whether the entity's financial position has improved or deteriorated.

32. The expenses related to capital assets that are reported in a resource flows statement are a component of the cost of current-year services. Initial amounts may be more useful than remeasured amounts for reporting certain costs of services when the objective is to enable tracking of budgetary resources expended. For example, costs, such as amortization or depreciation of capital assets, may be viewed as the expiration of benefits derived from prior expenditures of budgetary resources. Remeasured amounts may be more useful than initial amounts for assessing operating performance when the objective is to consider the economic costs of providing specific programs and activities and to compare costs with accomplishments. Remeasured amounts also may be more useful for assessing stewardship, including whether the entity's financial position improved or deteriorated over the period, whether public services are sustainable, whether obligations can be met as they come due, and for assessing future resource needs.

33. The previous discussion suggests that there are different views and factors to be considered concerning whether the financial reporting objectives are better achieved by reporting initial amounts or remeasured amounts. Also, some individuals believe that a mixed measurement approach, whereby some assets or liabilities are reported at initial amounts and others at remeasured amounts, serves a wider range of decision-making needs than either of the two measurement approaches alone.[10] Ultimately, which measurement approach is more useful depends on the types of transactions and other events that have occurred and the information needed for the decisions to be made. Requiring the same measurement approach for all assets and/or liabilities and related costs is unlikely to be conceptually appropriate or useful for decision makers. Rather, when the goal is to help ensure that reported information meets several

[10] For example, some who support reporting initial amounts for assets used to provide services also support reporting remeasured amounts for assets expected to be converted into cash.

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financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, measurement attributes, and measurement methods may be appropriate to convey useful information about different transactions and underlying events.

Measurement Attributes and Qualitative Characteristics

34. The previous section evaluates two measurement approaches—reporting initial amounts and reporting remeasured amounts—in relation to the financial reporting objectives. This section examines initial and remeasured amounts in relation to the qualitative characteristics that information in financial reports should demonstrate.[11]

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35. Initial amounts are referred to in general terms because they are not changed from period to period (except for appropriate adjustments for amortization, depreciation, or depletion). Remeasured amounts are discussed with reference to the attribute measured because the attribute selected may affect the degree to which a particular qualitative characteristic is met. Also, different attributes may be selected for different assets and liabilities and, because the amounts are remeasured each period, it is possible to change the attribute, if appropriate to achieve the financial reporting objectives under changed circumstances.

36. The measurement attributes discussed are those most commonly applied or available for use: *fair value, settlement amount, replacement cost, value in use,* and *fulfillment cost*. Additional measurement attributes may be developed in the future. Fair value and settlement amount may be used to determine either the initial amount (historical cost or historical proceeds) or the remeasured amount of an asset or liability. Replacement cost and value in use (for assets) and fulfillment cost (for liabilities) are not applicable for assessing initial amounts because they are attributes of assets and liabilities that an entity already has recorded. These attributes may be used to remeasure recorded amounts at subsequent financial statement dates.

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37. Different measurement methods, with varying degrees of precision, may be used in applying measurement attributes. For example, fair value may be measured by selecting a market price from applicable quotations, by estimating the present value of future resource flows, through a professional appraisal, or by applying a variety of other estimation techniques. The methods used may introduce different degrees of uncertainty in the resultant amounts and may, therefore, affect the degree to which the qualitative characteristics are met.

[11] The qualitative characteristics are discussed in SFFAC 1.

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Fair Value

38. *Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.*

39. The fair value of an asset or liability may be measured at the market value in established markets, such as those for certain investment or debt securities, or it may be estimated when there is no active market. Estimated fair value is commonly used for the initial amounts of assets acquired through donation or other types of nonexchange transactions.

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40. The fair value may be an entry (purchase) value or an exit (selling or settlement) value. For exchanges in established markets, the entry and exit values for the same item should be the same except for transaction costs and differences attributable to the value of services provided by the seller of an asset (e.g., a merchandise vendor) to the buyer.[12] When there is no established market for the exchange, differences between entry and exit prices may arise due to the use of different assumptions in arriving at an estimate of market value. Also, when a federal entity acquires or constructs an asset for a specific public purpose, the exit value may be lower than the entry value if, for example, a potential purchaser would expect to pay a reduced price to allow for the cost of adapting the asset to an alternative use.

41. Methods used to measure fair value include calculating the present value of estimated future cash flows and estimating the fair value by reference to the current purchase or selling prices or other settlement amounts of similar assets or liabilities. A present value measurement that fully captures the economic differences among different assets and liabilities would most often include the following factors:

a. An estimate of the future cash flow, or in more complex cases, series of future cash flows at different times
b. Expectations about possible variations in the amount or timing of those cash flows
c. The time value of money, represented by the risk-free rate of interest
d. The price for bearing the uncertainty inherent in the asset or liability

[12] For example, a PX acquires a variety of goods at a wholesale (entry value) price, provides the service of assembling the goods in a location and display that is convenient to customers, and sells them at a retail (exit value) price.

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e. Other, sometimes unidentifiable, factors including illiquidity and market imperfections.[13]

42. When fair value is used to measure and report an initial transaction, the amount becomes the historical cost or historical proceeds of the resulting asset or liability. The relevance, reliability, understandability, and comparability across entities of the reported amount are high in the initial reporting period, but they may decline with each successive period when compared with remeasured amounts. When market values can be used, amounts that are remeasured at fair value generally are high in relevance, reliability, and understandability, and in their comparability to equivalent amounts reported by other entities and their contribution to timely reporting. When fair values must be estimated, the degree to which the qualitative characteristics are met may vary depending on the availability of information about similar assets and liabilities and the degree of estimation required.

Settlement Amount

43. *Settlement amount is the amount at which a financial asset can be realized or a financial liability can be liquidated.*

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44. Settlement amounts are exit values that are based on transactions (i.e., with external parties) but may be adjusted by the reporting entity for expectations regarding externalities that may influence future settlement. When used to report financial assets, such as receivables, the settlement amount is often referred to as the net realizable value. For example, the settlement amount for a receivable would be the invoiced amount adjusted for expectations regarding credit losses. For accounts payable, the settlement amount is the amount that the creditor will accept in settlement of its claim for compensation for goods or services provided. For long-term liabilities, the settlement amount is often calculated by applying net present value techniques to expected future cash flows. For example, the settlement amount for loan guarantees may be measured by projecting defaults, and subsequent recoveries, on guaranteed loans and applying an entity-specific discount rate to the resulting cash flows. The measure represents the amount of cash that would need to be invested at the stated interest rate (i.e., the discount rate) to provide cash flows equal to the expected future cash payments required to settle the guaranteed loans. Because the focus is on the cash flows inherent in the asset or liability, settlement amounts do not take into account the price that the market would charge for bearing the risk or uncertainty associated with the asset or liability.

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[13] Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, February 2000, par. 23.

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45. When used for initially recording and reporting short-term assets and liabilities, the degree of relevance, reliability, and understandability of settlement amounts could be similar to that afforded by fair values. However, the relevance of initial settlement amounts for longer term assets and liabilities would decline in subsequent periods, when the settlement amount approaches the stated or face value. Remeasured settlement amounts would seem to be more appropriate because their relevance and reliability would be maintained or enhanced as the reporting dates approached the final settlement date. For some long-term liabilities, remeasurement may require the professional expertise of other disciplines, such as, for example, that of actuaries with respect to pension liabilities.

Replacement Cost

46. *Replacement cost is the amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life.*

47. Replacement cost is a remeasured amount, an entry value that is often advocated for assets used in providing services, such as capital assets and inventory not held for sale. Replacing the remaining service potential of an existing asset is not the same as acquiring an identical asset. However, in practice, replacement cost may be more easily measured as the current cost of a similar asset, reduced by an appropriate amount to allow for the lower service potential of the existing asset due to its age and condition. Thus, the replacement cost of an asset is not the same as the fair value of either an equivalent new asset or the existing asset at the reporting date. For example, to arrive at the replacement cost of a fifty-year-old office building at the mid-point of its expected life, the fair value of an equivalent, newly constructed office building would have to be adjusted for the value of the difference in age or service potential. In addition, the fair value of the existing building may be higher than the replacement cost because it can be put to alternative uses that produce greater benefits to the owner.

48. The relevance of replacement cost is high, especially for assessments of financial position and future resource needs. The level of understandability, reliability, and comparability across entities of reported replacement cost amounts may vary according to the data used and the complexity of the calculation.

49. Reporting the replacement cost of capital assets used in providing services and related service costs can facilitate comparisons between program and activity

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costs and accomplishments related to the same period. An objection sometimes raised is that replacement cost is not an attribute of the asset that is actually owned. However, the asset being measured is not the physical asset but the services it can provide.

Value in Use

50. *Value in use is the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life.*

51. Value in use is a remeasured amount for assets used to provide services. It can be measured at the present value of future cash flows that the entity expects to derive from the asset, including cash flows from use of the asset and eventual disposition. Value in use is entity specific and differs from fair value. Fair value is intended to be an objective, market-based estimate of the exchange price of an asset exchanged between willing parties. Value in use is an entity's own valuation of the service potential of an asset that it holds to provide a specific service. Examples include inventory and equipment with a unique design and purpose, and special-purpose buildings, such as prisons. In those cases, the value in use may be greater than the amount the entity could obtain from selling the asset because the selling price would need to accommodate the purchaser's need to adapt the asset to another purpose.

52. The service potential of an asset may be difficult to assess when the asset is used in combination with other assets and the total assessment must be allocated to the individual assets. In those cases, the reliability, consistency, and understandability of the remeasured amounts may be lower than when a direct assessment can be made of the value in use of each asset. The relevance of value in use is high for assessments of an individual entity, both with regard to the entity's management and for users' evaluations of operating performance, especially the entity's efficiency and effectiveness in managing its assets. However, the entity-specific nature of value in use reduces inter-entity comparability.

Fulfillment Cost

53. *Fulfillment cost includes all costs that an entity will incur in fulfilling the promises that constitute a liability.*

54. Fulfillment cost is a remeasured, entity-specific amount. It is an exit value that includes payments to the counterparty and other costs that arise from fulfilling the promises that constitute a liability assumed by an entity, such as for environmental remediation. The fulfillment cost differs from the settlement amount. The settlement amount is based on a transaction with an external

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party, potentially adjusted by the entity for externalities that may affect the payment amount. The fulfillment cost, in contrast, is the value to the entity of the resources that will be used in liquidating the entity's assumed liability and is not necessarily equal to the carrying amount or the fair value of those resources. Thus, the fulfillment cost of an entity's liability is entity specific and analogous to the value in use of an entity's asset.

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55. When the fulfillment cost depends on uncertain future events, possible alternative outcomes need to be considered when developing the estimated cost to reduce the potential for bias in the assessment. When fulfillment requires work to be done—for example, when the liability is for environmental remediation—the relevant costs are those that the entity will incur for either doing the work itself or employing a contractor. The fulfillment costs of long-term liabilities would be discounted to the reporting date, adjusting for risk at the risk-free rate, if appropriate.

56. Fulfillment costs are relevant to assessments of an entity's financial position but, because they are entity specific, they may not be comparable for assessments of other entities. Their reliability and understandability may vary depending on the complexities and uncertainties reflected in their measurement.

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The following table is an illustration of the mixed-attribute financial reporting model in effect for fiscal year 2010. The table presents, in the left-hand column, the asset and liability accounts required in the government-wide consolidated balance sheet of the federal government in accordance with OMB Circular A-136. The right-hand column indicates whether, under federal financial reporting standards in effect for fiscal year 2010, the account balance would be reported at the *initial amount* or at a *remeasured amount*, as defined in this concepts statement (par. 7a). Although the table illustrates the government-wide balance sheet, the information does not differ substantially from equivalent elements in the balance sheets of individual federal entities at a similar level of aggregation. Conclusions are based on the preponderance of circumstances, recognizing that different measures might be appropriate under certain circumstances.¶
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The purpose of the illustration is to enhance understanding of how the proposals in this concepts statement would apply under *existing* federal financial reporting requirements. These requirements result in reporting some assets and liabilities at their initial amounts and others at amounts remeasured as of the financial statement date. The illustration does not propose or predict changes to existing financial reporting measurement requirements. Any changes to current requirements would be established through financial reporting standards issued in the future after due process. ¶
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CONSOLIDATED GOVERNMENT-WIDE BALANCE SHEET:¶
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Appendix A: Illustration of a Mixed-Attribute Financial Reporting Model

The following table is an illustration of the mixed-attribute financial reporting model in effect for fiscal year 2010. The table presents, in the left-hand column, the asset and liability accounts required in the government-wide consolidated balance sheet of the federal government in accordance with OMB Circular A-136. The right-hand column indicates whether, under federal financial reporting standards in effect for fiscal year 2010, the account balance would be reported at the *initial amount* or at a *remeasured amount*, as defined in this concepts statement (par. 7a). Although the table illustrates the government-wide balance sheet, the information does not differ substantially from equivalent elements in the balance sheets of individual federal entities at a similar level of aggregation. Conclusions are based on the preponderance of circumstances, recognizing that different measures might be appropriate under certain circumstances.

The purpose of the illustration is to enhance understanding of how the proposals in this concepts statement would apply under *existing* federal financial reporting requirements. These requirements result in reporting some assets and liabilities at their initial amounts and others at amounts remeasured as of the financial statement date. The illustration does not propose or predict changes to existing financial reporting measurement requirements. Any changes to current requirements would be established through financial reporting standards issued in the future after due process.

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CONSOLIDATED GOVERNMENT-WIDE BALANCE SHEET: ASSET AND LIABILITY ACCOUNTS

ACCOUNTS	INITIAL OR REMEASURED AMOUNT?
Assets	
Cash and other monetary assets	**Initial** **Remeasured** (for seized monetary instruments and foreign currency)
Accounts receivable, net[1]	**Remeasured** (allowance for estimated uncollectible accounts is periodically remeasured)
Taxes receivable, net	**Remeasured** (allowance for estimated uncollectible taxes is periodically remeasured)
Direct Loan and Loan Guarantees[2]	**Remeasured** (present value method)
Inventory and related property, net:[3]	
Held for sale	**Initial** (most inventory held for sale) **Remeasured** (fungible inventory, such as petroleum)
Held for repair	**Remeasured**, less allowance for estimated repair cost
Excess, obsolete, or unserviceable	**Remeasured**
Operating materials and supplies	**Initial**
Stockpile materials	**Initial** **Remeasured** (for permanent declines in value below cost and for damage and decay)
Seized property, other than monetary instruments	**Initial**
Forfeited property	**Remeasured**, less liens
Foreclosed property	**Remeasured**
Goods held under price support and stabilization programs (e.g., commodities)	**Remeasured**
General property, plant and equipment, net[5]	**Initial**, adjusted for depreciation or amortization
Capital leases	**Initial**, adjusted for depreciation or amortization
Liabilities	
Accounts payable[1]	**Initial**
Loan guarantee liability[2]	**Remeasured** (present value method)
Debt held by the public[4]	**Initial** (if recorded at face value), adjusted for amortization **Remeasured** (for a variable value security)
Federal employee and veteran benefits[4]	**Remeasured**
Environmental and disposal liabilities	**Remeasured**
Benefits due and payable[4]	**Initial**
Other:	
Capital leases[4]	**Initial** (present value method)

Commitments and contingencies[4]	**Remeasured**

[1] SFFAS 1, *Accounting for Selected Assets and Liabilities*
[2] SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*
[3] SFFAS 3, *Accounting for Inventory and Related Property*
[4] SFFAS 5, *Accounting for Liabilities of the Federal Government*
[5] SFFAS 6, *Accounting for Property, Plant, and Equipment*

Section Break (Next Page)

Federal Accounting Standards Advisory Board

Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording

Statement of Federal Financial Accounting Concepts 7

Preballot Draft

MM dd, 2011

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General, established the Federal Accounting Standards Advisory Board (FASAB or “the Board) in October 1990. FASAB is responsible for promulgating accounting standards for the United States Government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government.

An accounting standard is typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. The proposed standards are published in an exposure draft for public comment. In some cases, a discussion memorandum, invitation for comment, or preliminary views document may be published before an exposure draft is published on a specific topic. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standard with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information is available from the FASAB or its website:

- “Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board.”
- “Mission Statement: Federal Accounting Standards Advisory Board”, exposure drafts, Statements of Federal Financial Accounting Standards and Concepts, FASAB newsletters, and other items of interest are posted on FASAB’s website at: www.fasab.gov.

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STATEMENTS OF FEDERAL FINANCIAL ACCOUNTING CONCEPTS

This Statement of Federal Financial Accounting Concepts (SFFAC) is the seventh in a series of concepts statements intended to set forth objectives and fundamentals on which financial accounting and reporting standards will be based. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties.

The Federal Accounting Standards Advisory Board's (FASAB or "the Board") conceptual framework enhances the consistency of standards and serves the public interest by providing structure and direction to federal financial accounting and reporting. The most direct beneficiaries of the FASAB's concepts statements are the Board itself and preparers and auditors of federal financial reports. The statements guide the Board's development of accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider the merits of alternatives.

Knowledge of the objectives and concepts the Board considers should help users and others who are affected by or interested in federal financial accounting and reporting standards to understand better the purposes, content, and qualitative characteristics of information provided by federal financial accounting and reporting. That knowledge should enhance the usefulness of, and confidence in, federal financial accounting and reporting.

Concepts statements enhance preparers' and auditors' understanding of the common foundation and reasoning employed in considering alternatives. The generally accepted accounting principles (GAAP) hierarchy provides that statements of federal financial accounting standards constitute level A (the highest level) guidance. Statements of federal financial accounting concepts are not GAAP. Instead, concepts statements constitute "other literature." Other literature may only be relied upon by financial statement preparers and auditors under the circumstances indicated in Statement of Federal Financial Accounting Standards 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board* (SFFAS 34).

In developing and amending accounting standards, the Board looks to concepts statements for guiding principles and also considers relevant existing standards and guidance issued by the Board and other standard-setting bodies. Until the Board amends existing standards, the Board expects practice to be governed by the accounting principles embodied in the four levels of the GAAP hierarchy specified in SFFAS 34. Thus, the Board distinguishes between material presented in concepts, which are used to guide Board deliberations on future GAAP, and accounting principles presented in standards, which constitute current GAAP.

For federal entities, in the absence of specific authoritative literature applicable to a transaction or event, it should be possible to report the event or transaction by selecting an established accounting principle for a similar transaction or event that appears appropriate when applied in a similar manner. In the unusual case where an analogy cannot be drawn to established authoritative literature, the GAAP hierarchy established in SFFAS 34 permits consideration of other literature including concepts statements. Consideration of individual concepts statements will be helpful but often may not provide sufficient guidance in resolving emerging issues. Therefore, the Board encourages careful study of the conceptual framework and established practice in resolving such issues.

Statements in this series describe concepts and relations that will underlie future federal financial accounting standards and practices and in due course will serve as a basis for evaluating existing standards and practices. With issuance of this statement, the series of concepts statements comprises:

- SFFAC 1, *Objectives of Federal Financial Reporting* (includes the qualitative characteristics of information in financial reports)
- SFFAC 2, *Entity and Display*
- SFFAC 3, *Management's Discussion and Analysis*
- SFFAC 4, *Intended Audience and Qualitative Characteristics for the Consolidated Financial Report of the United States Government*
- SFFAC 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*.
- SFFAC 6, *Distinguishing Basic Information, Required Supplementary*
- *Information, and Other Accompanying Information*
- SFFAC 7, *Measurement of the Elements of Accrual-Basis Financial Statements in Periods After Initial Recording*

Like other pronouncements of the FASAB, Statements of Federal Financial Accounting Concepts remain in effect until amended, superseded, or withdrawn by appropriate action under the Board's Rules of Procedure.

Executive Summary

In financial reporting, measurement is the act or process of assigning dollar amounts to the elements of the financial statements (assets, liabilities, and so forth). This Concepts Statement addresses the measurement of the elements of accrual-basis financial statements of federal government entities in periods after amounts are initially recorded. It identifies and elucidates conceptual issues for the Board to consider when deliberating measurement standards in the future. It does not change existing standards.

A principal question for the Board to resolve in future standards is whether and under what circumstances it might be more useful for users’ decision making to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded ("initial amount"), i.e., the historical cost or historical proceeds, subject to appropriate adjustments for amortization, depreciation, or depletion, or (b) at an amount measured at each financial statement date ("remeasured amount"), such as the fair value. This Concepts Statement discusses the advantages and disadvantages of different alternatives for measurement. However, conclusions as to which measurement approach or attribute may be selected for reporting an element under different circumstances are deferred for consideration in the standard-setting process. Standard-setting deliberations also would appropriately consider cost–benefit implications and other practical reporting concerns.

The measurement approach (initial or remeasured amounts), attributes, and methods used for measuring assets and liabilities affect how the information is reported and interpreted. The analysis in this Concepts Statement includes a comparison of the advantages and disadvantages for achieving the federal financial reporting objectives (SFFAC 1) of continuing to report an initial amount after the recognition period versus remeasuring an asset or liability at each financial statement date. Also included is a discussion of how well attributes that are commonly applied or available for measuring assets and liabilities, such as fair value and settlement amount, comply with the qualitative characteristics (SFFAC 1). The analysis suggests that, when the goal is to help ensure that reported information achieves several financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, attributes, and methods may be needed to convey useful information about different transactions and underlying events. The identification and discussion of the different measurement possibilities is expected to enhance the understanding of users and preparers as well as the Board's deliberations of future standards.

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Introduction

1. In financial reporting, measurement is the act or process of assigning dollar amounts to the elements of the financial statements. This Concepts Statement addresses the measurement of the elements of accrual-basis financial statements of federal government entities in periods after their initial recording. The elements are assets, liabilities, net position, revenues, and expenses, as defined in Statement of Federal Financial Accounting Concepts 5, *Definitions of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements.* Different measurements and considerations may apply for financial statements that are not presented on the accrual basis, such as a statement of budgetary resources, statement of social insurance, or statement of long-range fiscal projections, and for required supplementary information and other types of general purpose financial reporting.

Objective

2. The objective of this Statement is to identify and elucidate the conceptual issues relevant to establishing measurement standards in the future for accrual-basis financial statements.[1] A principal question for the Board to resolve in future standards is whether and under what circumstances it might be more useful for users' decision making[2] to report an asset or liability in periods after its acquisition or incurrence (a) at the amount initially recorded ("initial amount"), i.e., the historical cost or historical proceeds, subject to appropriate adjustments for amortization, depreciation, or depletion, or (b) at an amount measured at each financial statement date ("remeasured amount"), such as the fair value. This Concepts Statement discusses the advantages and disadvantages of different alternatives for measurement. However, conclusions as to which measurement approach or attribute may be selected for reporting elements under different circumstances are deferred for consideration in the standard-setting process. Standard-setting deliberations also would appropriately consider cost–benefit implications and other practical reporting concerns.

Focus on Assets and Liabilities

3. The measurement concepts in this Statement focus on assets and liabilities because remeasuring elements after their initial recording is only directly

[1] This Statement does not establish federal financial accounting standards or change existing standards.
[2] References in this Statement to usefulness for decision making encompass decisions related to accountability, management, and other needs of internal and external users, as discussed in Statement of Federal Financial Accounting Concepts 1, *Objectives of Federal Financial Reporting* (SFFAC 1).

applicable to assets and liabilities, insofar as the other elements are derived from them.[3] That is, balance sheets and operating statements articulate and, therefore, the measurement and recognition of changes in assets and liabilities affect reported revenues and expenses.

4. Expenses for a reporting period result from consuming assets and incurring liabilities, as well as from accounting adjustments that increase existing liabilities or decrease existing assets. Revenues result from acquiring assets and from accounting adjustments that increase existing assets or decrease existing liabilities. Consequently, expenses and revenues arise either from current-period transactions in which the resulting initial and remeasured amounts are the same (e.g., salaries expense and tax revenue), or from adjustments to existing assets and liabilities, such as for changes in the applicable discount rate (e.g., increases in pension liabilities), or for decreases in liabilities due to recognizing revenues for amounts previously reported as deferred revenues.

Financial Reporting Objectives and Qualitative Characteristics

5. The concepts in this Statement are considered with reference to the federal financial reporting objectives and the qualitative characteristics of information in financial reports.[4] The most relevant objectives to the questions addressed in this Statement are:

   a. *Budgetary Integrity*. To help the reader determine how information on the use of budgetary resources relates to information on the costs of program operations and whether information on the status of budgetary resources is consistent with other accounting information on assets and liabilities

   b. *Operating Performance.* To help the reader determine

      (1) The costs of providing specific programs and activities and the composition of, and changes in, these costs

      (2) The efforts and accomplishments associated with federal programs and the changes over time and in relation to costs

      (3) The efficiency and effectiveness of the government's management of its assets and liabilities

[3] The balance sheet element of net position is not separately addressed because it is defined as the difference between total assets and total liabilities.
[4] SFFAC 1.

c. *Stewardship.* To help the reader determine whether

(1) The government's financial position improved or deteriorated over the period

(2) Future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due

(3) Government operations have contributed to the nation's current and future well-being

6. The qualitative characteristics of information in financial reports are:

a. *Relevance*—The capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations

b. *Understandability*—The quality of information that enables users to perceive its significance

c. *Reliability*—The quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent

d. *Comparability*—The quality of information that enables users to identify similarities in and differences between two sets of economic phenomena

e. *Consistency*—Conformity from period to period with unchanging policies and procedures

f. *Timeliness*—Having information available to a decision maker before it loses its capacity to influence decisions

Concepts

Measurement Approaches and Attributes

7. The questions surrounding the measurement of assets and liabilities in accrual-basis financial statements can be grouped into two broad areas of consideration:

   a. The *measurement approach*. The measurement approach is whether an asset or liability is reported at the amount initially recorded ("initial amount"), i.e., the historical cost or initial-transaction amount, with appropriate adjustments for amortization, depreciation, or depletion, or at an amount measured at each financial statement date ("remeasured amount"), such as the fair value. A different measurement approach may be appropriate for different assets and liabilities.

   b. The *measurement attribute* (or measurement basis).[5] A measurement attribute is a measurable characteristic of an asset or liability, such as its fair value or settlement amount.[6] Major questions are: Which attributes result in more useful information for decision making, and what factors and circumstances may contribute to that result, such as the class of asset or liability, the type of transaction, and variations in users' decision-making needs? Also, the selection of a measurement attribute often entails the selection of a *measurement method*. For example, if the measurement approach for a particular asset is to report a remeasured amount and the measurement attribute selected is fair value, possible measurement methods could be to research quoted market prices, if available, or to obtain a professional appraisal. Different measurement attributes and methods may be used for different assets and liabilities, and the selections made can affect the usefulness of reported information for decision making.

8. The next section discusses different measurement approaches with reference to the financial reporting objectives. A later section discusses measurement attributes and methods with reference to the qualitative characteristics.

Measurement Approaches

9. The most basic accounting and financial reporting questions relate to recognition and measurement. When should a government measure the existence of, or changes in, the value of an asset or liability? When and how

[5] Both terms are currently in use in the accounting measurement literature and convey a similar concept.
[6] These and other measurement attributes are defined and discussed in a later section.

should revenues and expenses resulting from these changes be measured and recognized? Should a government record changes in economic values that have occurred, even though no transaction by the government has taken place? Would the reliability of financial statements suffer if such changes were accounted for as they occur, or would the failure to account for them reduce the decision-usefulness and representational faithfulness of financial statements? Financial reporting standards traditionally have permitted or required recognition of value changes for some assets and liabilities but not for others. The issues are complicated because value changes may be due to changes in interest rates or service potential, or to different types of price changes.

Changes in Specific Prices Versus Changes in the General Price Level

10. Prices of goods and services increase or decrease for primarily two reasons:

    a. *A change in the demand for or supply of a specific product*, such as materials or equipment, which affects the market value of the product. The accounting and financial reporting question is whether these changes should be included in the balance sheet in the period in which they occur or entirely in the period when an asset or liability is disposed of or settled. For flows statements, the question is whether they should report only realized gains and losses or also the unrealized gains and losses generated by price changes before disposition of the assets or liabilities ("holding" gains and losses).

    b. *A change in the purchasing power of the monetary unit* (e.g., the dollar). That is, taking into account all goods and services bought and sold in the economy, the general price level might change such that the monetary unit buys more or less today than in a previous period. Although the number of monetary units required to buy a product might change, the relationship between the price of that product and the price of other goods or services will remain the same. For example, if the price of machine A was higher than that of machine B before the change in purchasing power, it would also be higher afterward, because the change in purchasing power would affect both prices equally. Increases (or decreases) in the number of monetary units required to purchase goods and services are referred to as inflation (or deflation).

11. Whether inflation is taken into account can affect how information is reported and interpreted. For example, assume that a federal agency acquired land for \$100,000 in December 20x0 and sold it in December 20x1 for \$125,000—an apparent gain of \$25,000. Suppose, however, that during the year the general level of prices increased by 15 percent. That is, goods and services that could

have been purchased in December 20x0 for $1,000 would have cost $1,150 in December 20x1.[7] Thus, in the example, the land acquired for $100,000 in 20x0 dollars can be thought of as having a remeasured cost of $115,000 ($100,000 x 115/100) in 20x1 dollars. The gain on sale, expressed in *constant* dollars—in this case, 20x1 dollars—is therefore only $10,000 ($125,000 - 115,000), rather than $25,000 in *nominal* (unadjusted) dollars. The $15,000 difference between reporting the gain on sale in nominal dollars and reporting it in constant dollars is relevant to users' assessment of the stewardship and operating performance of the agency's management.

Four Possible Measurement Approaches

12. The distinction between changes in *specific prices* (or values) and changes in the *general price level* (purchasing power of the dollar) suggests four possible measurement approaches:

    a. *Initial amounts/nominal dollars*. This is the traditional measurement approach. Assets and liabilities are stated at their initial (historical cost or historical proceeds) amounts, without adjustment for changes in prices, whether general or specific.

    b. *Initial amounts/constant dollars*. Assets and liabilities are stated at their initial amounts expressed in dollars as of the balance sheet (current) date, rather than dollars of the acquisition date, so that general price level adjustments are recognized.

    c. *Remeasured amounts/nominal dollars*. Assets and liabilities are adjusted to take into account changes in the prices of specific goods or services, but no separate recognition is given to changes in the general price level.

    d. *Remeasured amounts/constant dollars*. Assets and liabilities are remeasured to take into account the current prices of goods and services—that is, adjustments are required for changes in the general price level as well as for changes in specific prices.

13. The following expansion of the earlier example compares results for the four measurement approaches. The results are illustrated in Table A.

[7] Changes in the general price level generally are stated as an index value. For example, the implicit price deflator for gross domestic product (GDP deflator), maintained by the U.S. Department of Commerce, Bureau of Economic Analysis, expresses prices of various years as percentages of prices of a selected base year, which is assigned a value of 100. If, for example, 20x0 is the base year (100) and prices in 20x1 are 15 percent higher, then the GDP deflator for 20x1 would be 115.

<u>Example</u>

A federal entity purchased land for $100,000 in December 20x0. The land increased in value to $125,000 by December 20x1. The entity retained the land for another year and sold it on December 31, 20x2 for $130,000. The general price level was 100 when the entity acquired the land, 115 on December 31, 20x1, and 127 on December 31, 20x2.

On December 31, 20x1, the land was worth $125,000—meaning, the entity could have realized a $25,000 nominal dollar gain by selling it. Further analysis reveals, that $15,000 of that gain resulted from general price level changes ($100,000 x 115/100) while the remaining $10,000 resulted from specific price increases. The next year, 20x2, the land reached a value of $130,000 and management sold it for a net gain of $30,000 over the two-year period.

All four measurement approaches result in a $30,000 gain being reported, but different information is available for each of the two years. Under the initial amounts/nominal dollars approach, the entire $30,000 gain is reported in 20x2. Using the initial amounts/constant dollars approach, $15,000 of the gain ($115,000 - 100,000) is reported in 20x1 and $15,000 in 20x2 ($130,000 - 115,000). Under both the remeasured amounts approaches, $25,000 of the gain ($125,000 - 100,000) is reported in 20x1 and $5,000 in 20x2 ($130,000 - 125,000). Further analysis reveals that, under both approaches reported using constant dollars, the purchasing power gain in 20x2 is $13,043 [$125,000 x (127/115) – 125,000]. Thus, under the initial amounts/constant dollars approach, the remainder of the 20x2 gain ($15,000 – 13,043 = $1,957) is attributed to a specific price increase. In contrast, under the remeasured amounts/constant dollars approach, the specific price change in 20x2 is a loss of $8,043 ($5,000 – 13,043).

Such differences can affect users' evaluation of operating performance. For example, the increase in the value of the land attributable to the 20x1 management team would be either zero or $15,000 under the initial amounts approaches versus $25,000 under the two remeasured amounts approaches.

TABLE A. Purchase and Sale of Land: Comparative Results under Four Measurement Approaches

Measurement Approach

	Initial amounts/ Nominal dollars	Initial amounts/ Constant dollars	Remeasured amounts/ Nominal dollars	Remeasured amounts/ Constant dollars
Acquisition cost = book value at 12/31/x0 (20x0 dollars)	$100,000	$100,000	$100,000	$100,000
Reported book value of land, 12/31/x1	100,000	115,000[1]	125,000[2]	125,000[2]
Current value of land, 12/31/x1	125,000	125,000	125,000	125,000
Reported total gain, 20x1	0	15,000[3]	25,000[4]	25,000[4]
— Purchasing power gain	0	15,000	0	15,000[5]
— Specific price gain	0	0	25,000	10,000
Sale price of land, 12/31/x2	130,000	130,000	130,000	130,000
Reported total gain, 20x2	30,000[6]	15,000[7]	5,000[8]	5,000[8]
— Purchasing power gain	0	13,043[9]	0	13,043[9]
— Specific price gain/(loss)	30,000	1,957	5,000	(8,043)

[1]$100,000 x 115/100 = $115,000
[2]Market value at 12/31/x1
[3]$115,000 – 100,000 = $15,000
[4]$125,000 – 100,000 = $25,000
[5]($100,000 x 115/100) – 100,000 = $15,000
[6]$130,000 – 100,000 = $30,000
[7]$130,000 – 115,000 = $15,000
[8]$130,000 – 125,000 = $5,000
[9]($125,000 x 127/115) – 125,000) = $13,043

14. Although certain federal government statistics are reported in constant dollars, there has not been a strong call to adjust the financial statements in recent decades, when inflation has been low. However, should high inflation be experienced in the future, consideration might be given to reporting financial statement information in constant dollars to assist users in assessing an entity's financial position and operating results after adjusting for inflation. If so, an examination of the advantages and disadvantages of reporting in constant dollars would be appropriate at that time.

Focus of This Statement

15. The remainder of this Statement focuses on the differences between reporting initial amounts and remeasured amounts in nominal dollars (measurement approaches a. and c. in the previous section). Under approach a., initial amounts are not adjusted for changes in either general or specific prices. Under approach c., remeasured amounts and resulting holding gains and losses incorporate the combined effects of both general and specific price changes without separately identifying them.

16. The analysis in this Statement addresses assets and liabilities in general. However, a particular financial reporting standard may permit or require the reporting of initial amounts for some assets and liabilities and remeasured amounts for others, based on the anticipated usefulness to decision makers of one approach versus the other for the reporting issues addressed in the standard.

Initial Amounts, Remeasured Amounts, and the Financial Reporting Objectives

17. This section discusses initial amounts and remeasured amounts in general and the extent to which each measurement approach helps achieve the federal financial reporting objectives. Different measurement attributes are discussed in a later section on "Measurement Attributes and Qualitative Characteristics."

Initial Amounts Versus Remeasured Amounts

18. Traditionally, the amount at which a transaction is reported has been determined in a manner appropriate to the nature of the transaction. For example, assets acquired by purchase are initially reported at the amount of the consideration surrendered by the purchaser (plus any additional costs incurred to bring the asset to a serviceable condition). Assets acquired through donation are reported at their fair value at the date of donation. Accounts receivable and payable are reported at their anticipated net settlement amounts, which are

future exit values.[8] Examples include reporting accounts receivable at net realizable value and reporting accounts payable at invoice amount less any discounts (e.g., for prompt payment). Once recorded, the amounts initially determined are often referred to as the "historical cost" of an asset or "historical proceeds" of a liability, regardless of how they were determined. In this Statement they are referred to as *initial amounts*.

19. Certain features of a transaction may make identification of an initial amount more difficult. For example, transactions may have associated costs, such as legal fees, which generally are reported as part of the initial amount. A single transaction may involve more than one asset or liability, requiring the total transaction amount to be allocated to the components. Indirect costs, such as certain labor costs, may need to be allocated to constructed assets through cost accounting procedures. Initial amounts for longer lived assets and liabilities generally are allocated to reporting periods. For example, capital assets are depreciated or amortized over their estimated useful lives. Discounts or premiums from issuance of debt are amortized or accreted over the term of the debt. Many of these features present practical questions to be resolved when setting standards. They do not represent advantages or disadvantages within the scope of this Statement.

20. Remeasured amounts of assets and liabilities are determined using one of several possible measurement attributes that reflect economic conditions at the financial statement date, including, for example, fair value or settlement amount. Remeasurement updates a previously determined carrying amount to reflect a change in the economic value of an asset or liability that has occurred since the previous financial statement date. A remeasured amount thus differs from an adjustment to an initial amount that does not reflect a change in value. For example, an increase in the accumulated depreciation balance on a building does not change the economic value of the building and does not constitute remeasurement of its carrying amount. Unless the value of the building itself is remeasured at, for example, its fair value, the reported amount will continue to be considered the initial amount. In contrast, an adjustment to an allowance for uncollectible accounts receivable due to an increased risk of noncollection constitutes remeasurement of the carrying amount, even when the gross amount of receivables is not remeasured, because the adjustment reflects a change in the economic value of the receivables—the anticipated net settlement amount.

[8] An exit value is the price or amount at which an asset could be sold or a liability extinguished. An entry value is the estimated price at which an asset which is currently on the books may be purchased. (*Kohler's Dictionary for Accountants*, sixth edition, W. W. Cooper and Yuji Ijiri, eds.; Prentice-Hall, Inc., Englewood Cliffs, N.J., 1983). Entry and exit values are referred to again in the section on measurement attributes.

Achieving the Financial Reporting Objectives

21. Assessments of which nominal-dollar measurement approach—initial amounts or remeasured amounts—better enables achievement of one or more of the financial reporting objectives vary according to the kinds of information users need and the decisions to be made.[9] In practice, federal financial statements traditionally have followed a "mixed-attribute" model. That is, some assets and liabilities, such as general property, plant, and equipment, have been reported at initial amounts (adjusted for depreciation, depletion, or amortization, if applicable), and others, such as direct loans and loan guarantees, have been reported at remeasured amounts. Appendix A contains additional examples of initial and remeasured amounts reported in the federal government-wide consolidated balance sheet as of the date indicated.

22. Given the objective of reporting information that is useful for accountability and users' decision-making needs and the range of different users and information needs to be addressed, it is likely that federal financial statements will continue to include both measurement approaches as well as different measurement attributes and measurement methods under each approach. Consequently, this Concepts Statement identifies advantages and disadvantages of reporting initial amounts and remeasured amounts and of applying different measurement attributes, but no conclusions are drawn as to which measurement approach or attribute may be preferable either in general or in particular circumstances. Such conclusions are the province of the standard-setting process, in the course of which the concepts in this Statement will be considered on a project-by-project basis, along with cost–benefit considerations and other practical reporting concerns that may arise under different alternatives.

23. Continuing to report assets and liabilities at their initially recorded amounts in periods following their acquisition or incurrence is a long-established approach to financial reporting and users are accustomed to that approach. Initial amounts generally are reliable and objective, based on documented evidence, although subjectivity subsequently may be introduced through the assumptions or methods adopted for calculating depreciation or amortization, such as depreciable lives and salvage values, or, as previously indicated, through the allocation of indirect costs. Initial amounts establish a historical record of transactions that have occurred that facilitates the control and safeguarding of resources.

[9] SFFAC 1 describes the users of federal financial reporting and their decision-making needs.

24. Proponents cite these advantages in support of reporting at their initial amounts the costs of inventory and capital assets and the resulting costs of providing programs and activities (referred to in the operating performance objective). These proponents believe that it is not useful to remeasure and report assets at their potential sales prices or settlement amounts when they are being held to provide services, rather than for sale. In this view, assets held to provide services should be reported at the amounts paid for them (or other initial amounts), and the reported cost of using them each period should be a function of that amount. With this approach, the initial amounts of assets will be allocated to service costs over the periods when the assets are used to provide services, based on the prices paid for the assets.

25. Many also support reporting initial amounts for assets used to provide services because they believe that the adequacy of taxes and other revenues should be assessed based on the amounts actually expended to acquire existing assets, rather than on the current-period costs of equivalent assets or service potential. These proponents suggest that reporting program and activity costs based on the initial amounts facilitates users' ability to assess how the use of budgetary resources relates to the costs of operations (budgetary integrity objective), whereas reporting costs each period at remeasured amounts does not. Initial amounts also may be advocated when there are significant barriers to the realization or settlement of a remeasured amount.

26. Proponents of reporting initial amounts hold that the reliability and objectivity of initial amounts is critical for users' decisions. Reporting remeasured amounts may introduce significant uncertainties and subjectivity into the information provided to users because of the level of judgment involved in developing these estimates. Those who hold these views point out that remeasured information may reduce the reliability of financial statements. Further, they note that information that is not reliable is rarely relevant.

27. Supporters of remeasurement believe that users require up-to-date information about the price of assets held for sale or to generate future cash inflows. Further, they believe that users also need information about the costs of programs and other ongoing activities based on the current costs of the underlying assets, particularly infrastructure and other capital assets that likely were acquired many years ago. In this view, a comparison of current-period taxes and other revenues with remeasured (current) costs of the resources consumed in providing goods and services is more relevant for assessing operating performance, stewardship, and the sustainability of services than is a comparison with initial amounts that are no longer current. To provide up-to-date information on the costs of services, the underlying assets need to be reported at a remeasured amount, such as replacement cost.

28. Similarly, supporters of remeasurement believe that remeasured amounts of assets and liabilities, especially for assets acquired many years ago, are more relevant than initial amounts for assessing an entity's current financial position, service potential, and ability to meet obligations when due, as well as the magnitude of the entity's current and probable future resource needs. Over time, critical factors, such as prices and interest rates, change, yet initial amounts reflect the prices and interest rates in effect at the various transaction dates, not at the reporting date. For example, it is possible for assets acquired at different dates to be reported at different amounts, even though they have the same service potential. Similarly, it is possible for liabilities incurred at different dates to be reported at the same initial amount, even though they do not represent equivalent economic claims on the entity's resources, because they bear different interest rates.

29. The contrasting views about the usefulness of initial amounts versus remeasured amounts suggest that an important consideration is whether the reporting objectives generally are more concerned with informing users about how efficiently and effectively budgetary resources were ultimately used to deliver goods and services, or about how all economic resources were used. The principal difference between the two goals is the treatment of the effects of price changes (unrealized or "holding" gains and losses) on reported assets and liabilities and related operating costs. The different treatments provide different information to users of the financial statements.

30. If an entity reports initial amounts, the statement of net cost reports the expiring benefits from previously expended budgetary resources only when the underlying assets are consumed or sold. The statement of net cost does not provide information about changes that occur in resource prices or the values of existing assets in the intervening periods. In contrast, if the entity reports remeasured amounts, the information reflects the capacity of the underlying assets to provide goods and services in changing circumstances. The statement of net cost captures the period-to-period changes in asset amounts (holding gains and losses) in the periods in which they occur and reports the resources consumed at current amounts, information that can help users assess stewardship and operating results each period.

31. The reporting of holding gains and losses can help fulfill the financial reporting objectives by providing information about management’s performance that is useful to agency and program managers as well as to taxpayers and other users of financial reports, including, for example, the economic results of decisions to hold rather than to sell assets. This information may enhance understanding of the costs of programs and activities based on current costs, how costs are changing, the sufficiency of current resources, and future

resource needs. The information also may help users assess the efficiency and effectiveness of the management of the entity's assets and liabilities, including whether a change in financial position resulted from management's operating decisions or from changes in prices beyond management's control. These kinds of information are available from the financial statements when holding gains and losses are separately displayed in the statement of net cost. Reporting initial amounts without adjustment for holding gains and losses (and excluding amortization, depreciation, and depletion) may help users compare the resources consumed for goods and services with the resources provided for those purposes. On the other hand, without information about current prices it is difficult for users to assess future resource needs and whether the entity's financial position has improved or deteriorated.

32. The expenses related to capital assets that are reported in a resource flows statement are a component of the cost of current-year services. Initial amounts may be more useful than remeasured amounts for reporting certain costs of services when the objective is to enable tracking of budgetary resources expended. For example, costs, such as amortization or depreciation of capital assets, may be viewed as the expiration of benefits derived from prior expenditures of budgetary resources. Remeasured amounts may be more useful than initial amounts for assessing operating performance when the objective is to consider the economic costs of providing specific programs and activities and to compare costs with accomplishments. Remeasured amounts also may be more useful for assessing stewardship, including whether the entity's financial position improved or deteriorated over the period, whether public services are sustainable, whether obligations can be met as they come due, and for assessing future resource needs.

33. The previous discussion suggests that there are different views and factors to be considered concerning whether the financial reporting objectives are better achieved by reporting initial amounts or remeasured amounts. Also, some individuals believe that a mixed measurement approach, whereby some assets or liabilities are reported at initial amounts and others at remeasured amounts, serves a wider range of decision-making needs than either of the two measurement approaches alone.[10] Ultimately, which measurement approach is more useful depends on the types of transactions and other events that have occurred and the information needed for the decisions to be made. Requiring the same measurement approach for all assets and/or liabilities and related costs is unlikely to be conceptually appropriate or useful for decision makers. Rather, when the goal is to help ensure that reported information meets several

[10] For example, some who support reporting initial amounts for assets used to provide services also support reporting remeasured amounts for assets expected to be converted into cash.

financial reporting objectives in response to the various decision-making needs of a range of users, it is necessary to accept that different measurement approaches, measurement attributes, and measurement methods may be appropriate to convey useful information about different transactions and underlying events.

Measurement Attributes and Qualitative Characteristics

34. The previous section evaluates two measurement approaches—reporting initial amounts and reporting remeasured amounts—in relation to the financial reporting objectives. This section examines initial and remeasured amounts in relation to the qualitative characteristics that information in financial reports should demonstrate.[11]

35. Initial amounts are referred to in general terms because they are not changed from period to period (except for appropriate adjustments for amortization, depreciation, or depletion). Remeasured amounts are discussed with reference to the attribute measured because the attribute selected may affect the degree to which a particular qualitative characteristic is met. Also, different attributes may be selected for different assets and liabilities and, because the amounts are remeasured each period, it is possible to change the attribute, if appropriate to achieve the financial reporting objectives under changed circumstances.

36. The measurement attributes discussed are those most commonly applied or available for use: *fair value, settlement amount, replacement cost, value in use,* and *fulfillment cost*. Additional measurement attributes may be developed in the future. Fair value and settlement amount may be used to determine either the initial amount (historical cost or historical proceeds) or the remeasured amount of an asset or liability. Replacement cost and value in use (for assets) and fulfillment cost (for liabilities) are not applicable for assessing initial amounts because they are attributes of assets and liabilities that an entity already has recorded. These attributes may be used to remeasure recorded amounts at subsequent financial statement dates.

37. Different measurement methods, with varying degrees of precision, may be used in applying measurement attributes. For example, fair value may be measured by selecting a market price from applicable quotations, by estimating the present value of future resource flows, through a professional appraisal, or by applying a variety of other estimation techniques. The methods used may introduce different degrees of uncertainty in the resultant amounts and may, therefore, affect the degree to which the qualitative characteristics are met.

[11] The qualitative characteristics are discussed in SFFAC 1.

Fair Value

38. *Fair value is the amount at which an asset or liability could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.*

39. The fair value of an asset or liability may be measured at the market value in established markets, such as those for certain investment or debt securities, or it may be estimated when there is no active market. Estimated fair value is commonly used for the initial amounts of assets acquired through donation or other types of nonexchange transactions.

40. The fair value may be an entry (purchase) value or an exit (selling or settlement) value. For exchanges in established markets, the entry and exit values for the same item should be the same except for transaction costs and differences attributable to the value of services provided by the seller of an asset (e.g., a merchandise vendor) to the buyer.[12] When there is no established market for the exchange, differences between entry and exit prices may arise due to the use of different assumptions in arriving at an estimate of market value. Also, when a federal entity acquires or constructs an asset for a specific public purpose, the exit value may be lower than the entry value if, for example, a potential purchaser would expect to pay a reduced price to allow for the cost of adapting the asset to an alternative use.

41. Methods used to measure fair value include calculating the present value of estimated future cash flows and estimating the fair value by reference to the current purchase or selling prices or other settlement amounts of similar assets or liabilities. A present value measurement that fully captures the economic differences among different assets and liabilities would most often include the following factors:

    a. An estimate of the future cash flow, or in more complex cases, series of future cash flows at different times
    b. Expectations about possible variations in the amount or timing of those cash flows
    c. The time value of money, represented by the risk-free rate of interest
    d. The price for bearing the uncertainty inherent in the asset or liability

[12] For example, a PX acquires a variety of goods at a wholesale (entry value) price, provides the service of assembling the goods in a location and display that is convenient to customers, and sells them at a retail (exit value) price.

e. Other, sometimes unidentifiable, factors including illiquidity and market imperfections.[13]

42. When fair value is used to measure and report an initial transaction, the amount becomes the historical cost or historical proceeds of the resulting asset or liability. The relevance, reliability, understandability, and comparability across entities of the reported amount are high in the initial reporting period, but they may decline with each successive period when compared with remeasured amounts. When market values can be used, amounts that are remeasured at fair value generally are high in relevance, reliability, and understandability, and in their comparability to equivalent amounts reported by other entities and their contribution to timely reporting. When fair values must be estimated, the degree to which the qualitative characteristics are met may vary depending on the availability of information about similar assets and liabilities and the degree of estimation required.

Settlement Amount

43. *Settlement amount is the amount at which a financial asset can be realized or a financial liability can be liquidated.*

44. Settlement amounts are exit values that are based on transactions (i.e., with external parties) but may be adjusted by the reporting entity for expectations regarding externalities that may influence future settlement. When used to report financial assets, such as receivables, the settlement amount is often referred to as the net realizable value. For example, the settlement amount for a receivable would be the invoiced amount adjusted for expectations regarding credit losses. For accounts payable, the settlement amount is the amount that the creditor will accept in settlement of its claim for compensation for goods or services provided. For long-term liabilities, the settlement amount is often calculated by applying net present value techniques to expected future cash flows. For example, the settlement amount for loan guarantees may be measured by projecting defaults, and subsequent recoveries, on guaranteed loans and applying an entity-specific discount rate to the resulting cash flows. The measure represents the amount of cash that would need to be invested at the stated interest rate (i.e., the discount rate) to provide cash flows equal to the expected future cash payments required to settle the guaranteed loans. Because the focus is on the cash flows inherent in the asset or liability, settlement amounts do not take into account the price that the market would charge for bearing the risk or uncertainty associated with the asset or liability.

[13] Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, February 2000, par. 23.

45. When used for initially recording and reporting short-term assets and liabilities, the degree of relevance, reliability, and understandability of settlement amounts could be similar to that afforded by fair values. However, the relevance of initial settlement amounts for longer term assets and liabilities would decline in subsequent periods, when the settlement amount approaches the stated or face value. Remeasured settlement amounts would seem to be more appropriate because their relevance and reliability would be maintained or enhanced as the reporting dates approached the final settlement date. For some long-term liabilities, remeasurement may require the professional expertise of other disciplines, such as, for example, that of actuaries with respect to pension liabilities.

Replacement Cost

46. *Replacement cost is the amount required for an entity to replace the remaining service potential of an existing asset in a current transaction at the reporting date, including the amount that the entity would receive from disposing of the asset at the end of its useful life.*

47. Replacement cost is a remeasured amount, an entry value that is often advocated for assets used in providing services, such as capital assets and inventory not held for sale. Replacing the remaining service potential of an existing asset is not the same as acquiring an identical asset. However, in practice, replacement cost may be more easily measured as the current cost of a similar asset, reduced by an appropriate amount to allow for the lower service potential of the existing asset due to its age and condition. Thus, the replacement cost of an asset is not the same as the fair value of either an equivalent new asset or the existing asset at the reporting date. For example, to arrive at the replacement cost of a fifty-year-old office building at the mid-point of its expected life, the fair value of an equivalent, newly constructed office building would have to be adjusted for the value of the difference in age or service potential. In addition, the fair value of the existing building may be higher than the replacement cost because it can be put to alternative uses that produce greater benefits to the owner.

48. The relevance of replacement cost is high, especially for assessments of financial position and future resource needs. The level of understandability, reliability, and comparability across entities of reported replacement cost amounts may vary according to the data used and the complexity of the calculation.

49. Reporting the replacement cost of capital assets used in providing services and related service costs can facilitate comparisons between program and activity

costs and accomplishments related to the same period. An objection sometimes raised is that replacement cost is not an attribute of the asset that is actually owned. However, the asset being measured is not the physical asset but the services it can provide.

Value in Use

50. *Value in use is the benefit to be obtained by an entity from the continuing use of an asset and from its disposal at the end of its useful life.*

51. Value in use is a remeasured amount for assets used to provide services. It can be measured at the present value of future cash flows that the entity expects to derive from the asset, including cash flows from use of the asset and eventual disposition. Value in use is entity specific and differs from fair value. Fair value is intended to be an objective, market-based estimate of the exchange price of an asset exchanged between willing parties. Value in use is an entity's own valuation of the service potential of an asset that it holds to provide a specific service. Examples include inventory and equipment with a unique design and purpose, and special-purpose buildings, such as prisons. In those cases, the value in use may be greater than the amount the entity could obtain from selling the asset because the selling price would need to accommodate the purchaser's need to adapt the asset to another purpose.

52. The service potential of an asset may be difficult to assess when the asset is used in combination with other assets and the total assessment must be allocated to the individual assets. In those cases, the reliability, consistency, and understandability of the remeasured amounts may be lower than when a direct assessment can be made of the value in use of each asset. The relevance of value in use is high for assessments of an individual entity, both with regard to the entity's management and for users' evaluations of operating performance, especially the entity's efficiency and effectiveness in managing its assets. However, the entity-specific nature of value in use reduces inter-entity comparability.

Fulfillment Cost

53. *Fulfillment cost includes all costs that an entity will incur in fulfilling the promises that constitute a liability.*

54. Fulfillment cost is a remeasured, entity-specific amount. It is an exit value that includes payments to the counterparty and other costs that arise from fulfilling the promises that constitute a liability assumed by an entity, such as for environmental remediation. The fulfillment cost differs from the settlement amount. The settlement amount is based on a transaction with an external

party, potentially adjusted by the entity for externalities that may affect the payment amount. The fulfillment cost, in contrast, is the value to the entity of the resources that will be used in liquidating the entity's assumed liability and is not necessarily equal to the carrying amount or the fair value of those resources. Thus, the fulfillment cost of an entity's liability is entity specific and analogous to the value in use of an entity's asset.

55. When the fulfillment cost depends on uncertain future events, possible alternative outcomes need to be considered when developing the estimated cost to reduce the potential for bias in the assessment. When fulfillment requires work to be done—for example, when the liability is for environmental remediation—the relevant costs are those that the entity will incur for either doing the work itself or employing a contractor. The fulfillment costs of long-term liabilities would be discounted to the reporting date, adjusting for risk at the risk-free rate, if appropriate.

56. Fulfillment costs are relevant to assessments of an entity's financial position but, because they are entity specific, they may not be comparable for assessments of other entities. Their reliability and understandability may vary depending on the complexities and uncertainties reflected in their measurement.

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RESPONDENTS TO THE EXPOSURE DRAFT: MEASUREMENT OF THE ELEMENTS OF ACCRUAL-BASIS FINANCIAL STATEMENTS IN PERIODS AFTER INITIAL RECORDING

Response No.	Respondent	Affiliation
1	Kathleen Stetson	Nuclear Regulatory Commission--IG
2	James Patton	Self
3	Carla Krabbe	SSA
4	Eric Berman	AGA FMSB
5	Elliot Lewis	DOL OIG
6	Alexis Stowe	GSA
7	Terry Bowie	NASA OCFO
8	David Luan	DOJ OIG
9	Melanie Cenci	USDA OCFO
10	Gerald Tucker	HUD OCFO
11	Cynthia Wilbur	OPM OCFO
12	Andrew Lewis	GWSCPA FISC
13	Cynthia Simpson	DOL OCFO
14	Gordon Alston	Commerce OCFO
15	Amanda Nelson	KPMG
16	Carol Banks	Treasury
17	Carla Ben Flores	DHS OCFO

SUMMARY OF THE MEASUREMENT ATTRIBUTES PROJECT

Project objective: The Measurement Attributes project is part of the FASAB's commitment to reexamine and expand its conceptual framework. A measurement attribute is a property, feature, or aspect of an item that is measured for financial reporting—for example, the item's historical cost, fair value, or replacement cost. The FASAB has no underlying concepts that justify the use of different attributes or that examine the decision-usefulness of information prepared using one attribute vs. another. Without guiding concepts, Board decisions about which measurement attributes should be required in future standards will likely continue to be "ad hoc" as in the past. Such an approach is unlikely to result in consistency and continuity in Board decisions, despite the Board's commitment to the qualitative characteristics of financial information and related Objectives in SFFAC1. The project is expected to result in a concepts statement for the future guidance of, primarily, the Board itself.

Scope of the project: At the December 2007 meeting, the Board decided that the project should focus initially on defining the measurement attributes of items that are candidates for recognition in the financial statements or disclosure in the notes. This decision does not preclude consideration later in the project of the measurement attributes of items reported as required or other supplementary information, and consideration of measurement methods, such as inflation-adjusted and nominal-dollar methods, if these additions become advisable.

Tentative adoption of FASB/IASB's conclusions in Milestone I of their joint project on measurement: At the February 2008 meeting, the Board discussed a Report prepared by FASB staff. The Report and its appendixes summarized the decisions made by the FASB and the IASB at their April 2007 meeting in Milestone I of their joint project on measurement. The decisions included the tentative adoption of nine primary candidates and several variants for measurement attributes (referred to in the Report as "measurement bases"). At the time, the FASB and IASB intended to examine the primary candidates further and assess their decision-usefulness by comparing them with the qualitative characteristics of accounting information adopted by each Board. The FASAB decided to adopt the same measurement attributes for the time being, pending further discussion of their applicability to federal government activities and pending information on subsequent conclusions of the FASB and IASB as their project unfolded.

Concepts of measurement and of "price" vs. "value," and alternatives for proceeding with the project: At the April 2008 meeting the Board reviewed concepts developed by FASB/IASB staff concerning (a) measurement and how measurement should be defined and (b) the difference between "price" and "value." These concepts contributed to the identification and definition of the candidates for measurement attributes proposed in the FASB/IASB Report of July 2007.

The Board discussed what the next steps in the project should be, given that changes were under discussion for the course of the FASB/IASB project. The possibility existed of an extension in the projected completion dates for the second and third stages of that project. FASAB staff identified three alternatives for FASAB action: (1) Look at federal transactions and consider whether the FASB/IASB's candidates for attributes are appropriate for them. (2) Delay the project, pending further progress by the FASB and IASB. (3) Modify the February decision. That is, the FASAB could build on the work already completed by the FASB/IASB and use it as a foundation for its own research. The Board still could consider the FASB and IASB's future work, as and when they made progress. After briefly discussing the advantages and disadvantages of each alternative, the Board requested the staff to elaborate on them for the next meeting, with a timeline or estimate of the amount of staff and Board time that would be required for each alternative.

At the June 2008 meeting, the Board directed staff to research FASAB standards to determine which measurement attributes are required in federal financial statements and why, if the reason is given. Staff also should begin preparations for a task force meeting at the staff level.

At the August meeting the Board met in a joint session with the members of the Governmental Accounting Standards Board. The Boards discussed their respective measurement projects and their views on the appropriateness of measuring historical cost or fair value in various transactions.

At the October 2008 meeting, the Board reviewed the results of a staff analysis which found twenty-two measurement attributes required for assets or liabilities under SFFAS 2, 3, and 6. The Board concluded that some of the attributes identified appeared to duplicate concepts under different names, and some might not be attributes. The Board asked the staff to identify and remove the duplications from the list.

Also in October, the staff presented three alternatives for moving the project forward in light of the delay in the FASB/IASB joint measurement project. All members preferred some variation of the second alternative: Staff should develop an outline of the scope and content of a concepts statement on measurement attributes. Research would include the FASB/IASB Milestone I measurement attributes as well as certain attributes required by FASAB standards. The Board would review the outline before deciding whether to seek input from a task force. Staff also would look at the feasibility and usefulness of developing classifications of assets and liabilities that might be of assistance in identifying more than one useful measurement attribute, depending on the asset and liability classifications.

The project was not on the agenda for the December 2008, February 2009, or April 2009 FASAB meetings.

At the June 2009 meeting, the Board reviewed the project objectives, the approach taken, and the progress and decisions made. The Board also discussed the new approach adopted by the FASB and IASB in their joint project as well as the approaches being taken in the GASB's and the IPSASB's measurement projects. Board members discussed their preferences for the future direction of the project, including looking at candidates for measurement attributes in the context of federal transactions and resulting assets and liabilities as well as considering the pros and cons of different attributes in relation to the reporting objectives and qualitative characteristics identified in SFFAC 1.

At the August 2009 meeting, the Board reviewed a staff paper comparing the measurement attributes "acquisition price" and "current prices" with the financial reporting objectives in Concepts Statement 1. The Board also received the GASB's August 2009 draft of a portion of a concepts statement addressing measurement attributes. The Board discussed at the FASAB meeting and at a joint meeting with the GASB whether the two projects could be combined. Members agreed to examine the possibilities, including the logistics. For the October meeting, FASAB staff would prepare a portion of a draft concepts statement on measurement attributes and GASB staff would provide a revised draft of their measurement attribute concepts.

At the October 2009 meeting, the Board reviewed a FASAB draft of major portions of a proposed concepts statement. The Board also received a GASB draft on measurement, which had been adopted at the GASB's October meeting for subsequent incorporation into a broader-scope concepts statement on recognition and measurement issues. Several FASAB members preferred the GASB document for its readability. The Board directed FASAB staff to prepare a draft for the December meeting that would be based on the GASB's October draft, but would adapt that draft as needed to fit the FASAB's conceptual framework and the federal financial reporting environment. The Board decided that material should be added to the draft to define and describe various measurement attributes. The Board also decided the draft should remain neutral in evaluations of the advantages and disadvantages of certain measurement approaches to avoid setting standards in a concepts statement. The draft would be in "track-changes format" so that members could compare the FASAB and GASB drafts in one document.

In December 2009, the Board discussed a revised draft of a proposed concepts statement and requested certain revisions. The Board also decided to provide the GASB with a draft FASAB concepts statement and request the GASB's views on the differences between the FASAB and GASB documents and on the possibilities for collaboration. In January 2010, chairman Allen discussed the issue with GASB chairman Bob Attmore. The GASB scheduled a discussion of the differences between the FASAB and GASB drafts and the possibilities for collaboration for the GASB's February 18, 2010 meeting, which FASAB staff would attend.

At the February 2010 meeting, the Board discussed a revised draft and requested certain organizational as well as wording changes, and a general improvement to the readability of the draft. FASAB staff had attended the GASB's February 18 meeting on measurement attributes and provided a summary of it to the Board. The Board discussed the possibilities for the GASB and the FASAB to conform terminology and other aspects of their separate drafts. A joint FASAB/GASB session on measurement was tentatively planned for June.

At the April 2010 meeting, the Board discussed a revised draft and requested certain wording and organizational changes. The Board also requested a draft of a possible appendix showing, for the principal line items in the federal balance sheet, whether the amount is an initial amount or a remeasured amount under current standards.

In June 2010, the Board met with the GASB in a joint meeting to discuss the possibilities for conforming terminology used for similar concepts in each Board's draft. It was agreed that both Boards would refer to the three levels of measurement as "measurement approaches," "measurement attributes," and "measurement methods."

At the June FASAB meeting, the Board agreed to include in the draft concepts statement an appendix that would present an illustration of the current "mixed-attribute" model used in federal financial reporting. The illustration would show which amounts in the government-wide consolidated balance sheet are measured at initial amounts and which at remeasured amounts, based on financial reporting standards in effect in FY2010. The Board also reviewed revisions to the April draft and requested additional changes to be included in a revised draft for the August meeting.

At the August meeting, the Board approved a preballot draft of the concepts statement and agreed to vote on a ballot draft with a view to issuing an exposure draft (ED) of the concepts statement in September. Shortly after the meeting, the Board voted unanimously in favor of issuing the ED, which was released for public comment on September 13, with a comment deadline of November 30.

At the December meeting, the Board discussed the responses received to the ED. The Board directed staff to clarify the meaning of a "principal question" referred to in paragraph 2 and in the Executive Summary. Also, staff should expand the discussion of the attributes to clarify how the attributes might be used as well as the distinctions among attributes that appeared to be similar in concept. The Board also decided that a public hearing on the ED would not be necessary.