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This paper presents a staff redraft of parts of the measurement chapter of the Exposure Draft *Conceptual Framework for Financial Reporting*. Agenda Paper 10B summarises the suggested changes and includes questions for Board members to discuss.

The changes from the text of the Exposure Draft are shown on Paper 10D.

Chapter 6—Measurement

Introduction

- 6.1 Elements that are recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified attribute of an item being measured (for example, historical cost, fair value or fulfilment value). Applying a measurement basis to an asset or a liability creates a measure for that asset or liability and related income or expense.
- 6.2 Consideration of the objective of financial reporting, the qualitative characteristics of useful financial information and the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities and items of income and expense.
- 6.3 This chapter discusses:
- The essential features of various measurement bases (paragraph 6.6 to 6.26);
 - The information provided by each measurement basis (paragraph 6.27 to 6.44); and
 - Factors to consider when selecting a measurement basis (paragraph 6.45 to 6.79).
 - situations when more than one measurement basis provides relevant information (*not in this draft*); and
 - measurement of equity (*not in this draft*).
- 6.4 This Chapter will assist in the selection of a measurement basis for use in particular Standards. Standards may set out how that basis is to be implemented, which may include:

- (a) specifying the techniques to be used to estimate a measure on a particular measurement basis;
- (b) specifying a proxy measurement basis, for example where the proxy is likely to provide similar information to the selected measurement basis at less cost; or
- (c) modifying a measurement basis.

6.5 Cash-flow based measurement techniques are often used to estimate a measure on a particular measurement basis. They are discussed in paragraphs A1–A10 (*not in this draft*).

Measurement bases

Historical cost

- 6.6 Measures based on historical cost provide monetary information about assets, liabilities, income and expenses using information derived from the transaction or event that created them.
- 6.7 The historical cost of an asset at the time of the asset's acquisition or construction is the value of all the costs incurred in acquiring or constructing the asset, including both the consideration given and the transaction costs incurred. Reporting at historical cost a recently acquired asset is justifiable as it is reasonable to assume, in the absence of evidence to the contrary, that the asset will provide economic benefits that at least recover its cost.
- 6.8 The historical cost of a liability at the time it is incurred is the value of the consideration received, comprising the consideration less the transaction costs incurred in taking it on. Reporting at historical cost a liability that has been recently assumed in exchange for consideration at the consideration received is justifiable as it is reasonable to assume, in the absence of evidence to the contrary, that the liability is no more than the consideration received.
- 6.9 The carrying amount of a non-financial asset reported at historical cost is adjusted over time to depict, if and when applicable:
- (a) the consumption of the economic resource that constitutes the asset (depreciation or amortisation); and
 - (b) the effect of events that cause part of the historical cost of the asset to be no longer recoverable (impairment).
- 6.10 The carrying amount of a non-financial liability reported at historical cost is adjusted over time to depict, if and when applicable:
- (a) accrual of interest;
 - (b) fulfilment of the liability; and
 - (c) the effect of events that increase the estimated cash outflows required to fulfil the liability so that the historical cost no longer faithfully represents the liability (onerous liabilities).
- 6.11 The subsequent carrying amount of financial assets and financial liabilities measured at historical cost reflects subsequent changes such as the accrual of interest, changes in the estimates of cash flows

(including the impairment of financial assets) and payments or receipts. This is sometimes referred to as amortised cost.

- 6.12 Historical cost does not reflect changes in prices, other than those caused by the factors identified in paragraphs 6.9–6.11 above.
- 6.13 Where assets are acquired, or liabilities are incurred as a result of an event other than a transaction on arms-length terms, it may not be possible to readily identify a cost, or the cost may not faithfully represent the asset or liability. In such cases, a current value is sometimes used as a proxy for cost (deemed cost) on initial measurement and that deemed cost is then used as a starting point for subsequent measurement. In such a circumstance, it may be necessary to confirm that the deemed cost of the asset is recoverable (or that the amount of the liability is not greater than its deemed cost).

Current value

- 6.14 Measures based on current value provide monetary information about assets, liabilities, income and expenses using information that is updated to reflect conditions at the measurement date. Because of the updating, current values reflect both positive and negative changes, since the previous measurement date, in estimates of cash flows and other factors included in those current values. Where current values are used, the measure of an asset or liability after initial recognition does not reflect the transaction or event that created the asset or liability.
- 6.15 Current value measurement bases include:
- (a) fair value (see paragraphs 6.16–6.20); and
 - (b) value in use for assets and fulfilment value for liabilities (see paragraphs 6.21–6.25).
 - (c) current cost (see paragraph 6.26)

Fair value

- 6.16 Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.
- 6.17 Fair value reflects the perspective of market participants (participants in a market to which the entity has access). That is, the asset or the liability is measured using the same assumptions that market participants would use when pricing the asset or the liability if those market participants act in their economic best interest.
- 6.18 Fair value reflects the following factors:
- (a) estimates of future cash flows.
 - (b) possible variations in the estimated amount and timing of future cash flows for the asset or the liability being measured, caused by the uncertainty inherent in the cash flows.
 - (c) the time value of money.
 - (d) the price for bearing the uncertainty inherent in the cash flows (ie a risk premium or risk discount). The price for bearing that uncertainty depends on the extent of that uncertainty. It also reflects the fact that investors would generally pay less for an asset (generally expect to

receive more for taking on a liability) that has uncertain cash flows than for an asset (liability) whose cash flows are certain.

- (e) other factors, such as liquidity, that market participants would take into account in the circumstances.

6.19 For a liability, the factors mentioned in paragraph 6.18(b) and 6.18(d) include the possibility that the entity may fail to fulfil the liability (own credit risk).

6.20 The fair value of:

- (a) an asset is not increased by the transaction costs incurred when acquiring the asset. Nor is it decreased by the transaction costs that would be incurred on selling the asset.
- (b) a liability is not decreased by the transaction costs arising when the liability is incurred. Nor is it increased by the transaction costs that would be incurred on transferring the liability.

Value in use and fulfilment value

6.21 Value in use and fulfilment value are entity-specific values. Value in use is the present value of the cash flows that an entity expects to derive from the continuing use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash flows that an entity expects to incur as it fulfils a liability.

6.22 Value in use and fulfilment value are based on entity-specific assumptions rather than assumptions by market participants. However, there may sometimes be little difference between the assumptions that market participants would use and those that the entity itself uses. In that case, a market participant perspective and the entity's perspective are likely to produce similar measures.

6.23 Value in use and fulfilment value cannot be directly observed and are determined using cash-flow-based measurement techniques. In principle, value in use and fulfilment value reflect the same factors as described for fair value in paragraph 6.18, except that, for a liability, the entity's non-performance risk may be excluded from fulfilment value.

6.24 Value in use reflects the present value of the transaction costs that the entity expects to incur on the ultimate disposal of the asset.

6.25 Fulfilment value includes not only the present value of the amounts to be transferred to the liability counterparty, but also the present value of the amounts that the entity expects to transfer to other parties to enable it to fulfil the liability. Thus, it also includes the present value of transaction costs (if any) that the entity expects to incur in undertaking transactions that enable it to fulfil the liability.

Current cost

6.26 The current cost of an asset (liability) is the cost of (proceeds from) an equivalent asset (liability) at the measurement date. Current cost, like historical cost, is an entry value: it reflects values in the market in which the entity acquires the asset or incurs the liability (although it is based on economic circumstances prevailing at the measurement date). Hence, it is different from the current value measurement bases described in paragraphs 6.16–6.25, which are exit values.

Information provided by different measurement bases

Historical cost

- 6.27 Information about assets and liabilities measured at historical cost may be relevant, as historical cost directly reflects the transactions undertaken by the entity. Because historical cost is reduced to reflect consumption of assets and their impairment, and the carrying amounts of liabilities are increased where they are onerous, historical cost indicates that the entity's recognised assets less liabilities are at least as great as the amount at which they are measured at the reporting date.
- 6.28 If a non-financial asset is measured at historical cost:
- (a) consumption of part of the asset is reported by recognising an expense measured as the historical cost of the part consumed.
 - (b) the gain or loss on sale of the asset is reported by recognising an expense measured as the historical cost of the asset (or part of the asset) that is derecognised and by recognising income measured at the value of the consideration. The difference between the income and the expense is the margin resulting from the sale.
- 6.29 Similarly, if a liability is measured at historical cost, the fulfilment of part or all of the liability results in the recognition of income measured as the historical cost of the part fulfilled. That income is generally recognised in the same period as the expense incurred in fulfilling that part of the liability. The difference between the income and the expense is the margin resulting from the fulfilment.
- 6.30 Information about the cost of assets (including services) consumed and the consideration received has predictive value because it can be used as some of the inputs needed to predict future margins and hence an entity's prospects for future cash flows from the future supply of goods and services. Income and expenses measured at historical cost may also have confirmatory value by providing feedback about previous estimates of cash flows or margins.
- 6.31 If financial assets and financial liabilities are measured at amortised cost, the financial statements report the contractual yield and the contractual cost of borrowing. This has predictive value as it may be used as one of the inputs to estimate future returns. It may also have confirmatory value by providing feedback about previous estimates of cash flows or of margins.
- 6.32 Because historical cost measures do not reflect changes in prices (except to the extent assets are impaired or liabilities become onerous), they may not provide relevant information about assets, liabilities, income and expense if price changes are significant. For example, historical cost may not provide relevant information about assets (and their consumption), that are held for a long period such as property, plant and equipment, and is unlikely to provide relevant information about a financial asset or financial liability that is a derivative. Where price changes are significant, margins measured on a historical cost basis may have limited usefulness for predicting future margins, as the future cost of consumption may differ significantly from historical prices. The difficulty of using historical cost measures as inputs to predict future margins is increased when, as is often the case, the user of the financial statements does not know when the assets (liabilities) were acquired.

Fair value

- 6.33 Information given about assets and liabilities when they are measured at fair value has predictive value, because fair value reflects market participants' expectations about the amount, timing and uncertainty of the cash flows (priced in a manner that reflects the market consensus on risk preferences). It may also have confirmatory value by providing feedback about previous estimates.
- 6.34 Income and expenses resulting from changes in fair value of an asset or liability that is held throughout the reporting period reflect changes in the factors identified in paragraph 6.18 above. The predictive value and confirmatory value of income and expenses measured at fair value may be enhanced by disaggregating it and reporting separately the effect of changes in different factors: for example, by separately identifying income or expenses that reflect the time value of money.
- 6.35 Income and expenses reflecting changes in market participants' expectations and risk preferences may have some predictive value, as they can be used as an input to assess future income and expenses. Such income and expenses may also assist in an assessment of how efficiently and effectively the entity's management have discharged their responsibilities to use the entity's resources.
- 6.36 Where assets and liabilities are measured at fair value, sale or transfer would normally be expected to be for consideration of a similar amount as that at which the assets or liabilities are reported immediately before the transaction. As a result, the net income and net expenses arising on sale or transfer would usually be small, apart from the effect of transaction costs, and may not be particularly relevant.
- 6.37 Depending on the item that is being measured and the nature of the business activities conducted by the entity, users may not always find information about changes in the price that would be received to sell an asset, or paid to transfer a liability, (reflecting changes in expectations of market participants) relevant. Hence, they may not always find income and expenses measured at fair value relevant. This may be the case when the business activities conducted by the entity do not involve selling the asset or transferring the liability; for example, if assets are held solely for use or to collect contractual cash flows, or if liabilities are to be fulfilled by the reporting entity itself.

Value in use and fulfilment value

- 6.38 Value in use provides information about the present value of the estimated cash flows from the continued use of an asset and from its disposal at the end of its useful life. This information has predictive value and can be used in assessing the prospects for future cash flows, particularly if the asset will contribute to future cash flows by being used.
- 6.39 Fulfilment value provides information about the present value of the estimated cash flows to fulfil a liability. That information has predictive value, particularly if the liability will be fulfilled instead of transferred or settled by negotiation.
- 6.40 Updated estimates of value in use and fulfilment value, combined with information about subsequent cash flows, have confirmatory value because they provide feedback about previous estimates of value in use and fulfilment value.
- 6.41 Because value in use and fulfilment value reflect the perspective of the reporting entity, those measures could differ for identical assets and liabilities in different entities, arguably reducing comparability. In

contrast, because fair value uses market participant assumptions, in theory, different entities that have access to the same markets should arrive at identical estimates of fair value for identical items.

Current cost

- 6.42 Like historical cost, current cost provides information on the cost of consumption of an asset (or income from the fulfilment of liabilities) and hence provides part of the margin. The difference is that current cost reports consumption (fulfilment) at current prices (that is prices prevailing at the time of consumption (fulfilment) rather than prices prevailing when the asset (liability) was acquired (incurred)). This information may be more relevant than historical cost where price changes are significant, as future cost of consumption (satisfaction) is more likely to resemble current prices than to resemble historical prices.
- 6.43 To report the current cost of consumption (or income from fulfilment) it is necessary to disaggregate the change in carrying amount in the reporting period into the effect of changes in prices (sometimes referred to as holding gains and holding losses) and the current cost of consumption (fulfilment).
- 6.44 Table 6.1 summarises the information provided in the statement of financial position and the statement(s) of financial performance by the measurement bases described in paragraphs 6.6–6.43.

Table 6.1—Information provided by various measurement bases

Assets

Statement of financial position				
	Historical cost	Current cost	Fair value (market participant assumptions)	Value in use (entity-specific assumptions)
Significance of carrying amount	Historical cost, including transaction costs, to the extent unconsumed (or uncollected) and recoverable.	Current cost, including transaction costs, to the extent unconsumed (or uncollected) and recoverable.	Price that would be received to transfer the asset, without deducting transaction costs on disposal.	Present value of cash flows estimated to arise from the continuing use of the asset and from its disposal at the end of its useful life (after deducting present value of transaction costs on disposal).
Statement(s) of financial performance:				
Event	Historical cost	Current cost	Fair value (market participant assumptions)	Value in use (entity-specific assumptions)
Initial recognition^(a)	—	—	Difference between consideration paid and fair value of the asset acquired. Transaction costs on	Income for value in use of asset; less expense for consideration paid.

			acquiring the asset	
Sale or consumption of the asset. ^(b)	Income for consideration received and expense for historical cost of asset consumed.	Income for consideration received and expense for current cost of asset consumed.	Expense for transaction costs on selling the asset.	Income for consideration received and expense for value in use of asset consumed.
Price changes	Not recognised except to the extent that the asset is impaired.	Income and expense from holding gains and holding losses.	Reflected in income and expenses from changes in fair value. (May be separately identified).	Not recognised except to the extent price changes result in changes to expected cash flows.
Interest received	Interest income, at historical rates.	Interest income, at current rates.	Interest income, at current rates (if separately identified).	Interest income, at current rates (if separately identified).
Impairment	Expense representing the extent to which events have caused historical cost to be no longer recoverable.	Expense representing the extent to which events have caused current cost to be no longer recoverable.	Not applicable.	Expense representing the extent to which events have caused previous carrying amount to be no longer recoverable.
Changes in estimates of future cash flows	For non-financial assets, none except for the present value of changes that generate or reverse an impairment loss. For financial assets, income or expense for all changes in the estimated present value of future cash flows.	Reflected in income and expense from changes in current cost.	Reflected in income and expenses from changes in fair value. (May be separately identified).	Reflected in income or expense to the extent changes in estimates generate or reverse an impairment loss.
<p>(a) Income or expenses will arise on the initial recognition of an asset acquired in an exchange of unequal value. This income or expense will be the difference between the amount at which the acquired asset is stated under the measurement basis and the consideration paid.</p> <p>(b) Consumption of the asset may be reported through cost of sales, depreciation or amortisation.</p> <p>(c) Chapter 7 discusses the presentation and disclosure of items of income or expense in statements(s) of financial performance.</p>				

Liabilities

Statement of financial position				
	Historical cost	Current cost	Fair value (market participant assumptions)	Value in use (entity-specific assumptions)
Significance of carrying amount	Historical cost (reduced by transaction costs) increased by accrued interest and excess of estimated cash flows over consideration received, to the extent unfulfilled.	Current cost (reduced by transaction costs) increased by accrued interest and excess of estimated cash flows over consideration received, to the extent unfulfilled.	Price that would be paid to transfer the liability, excluding transaction costs.	Present value of cash flows estimated to arise in fulfilling the liability, including transaction costs to be incurred in fulfilment..
Statement(s) of financial performance:				
Event	Historical cost	Current cost	Fair value (market participant assumptions)	Fulfilment value (entity-specific assumptions)
Initial recognition^(a)	—	—	Difference between consideration received and fair value of the liability acquired. Transaction costs on assuming the liability	Income for consideration received for assuming the liability; less expense for fulfilment value.
Transfer or fulfilment of the liability.^(b)	Expense for consideration paid and income for historical liability of liability transferred of fulfilled.	Income for consideration paid and expense for current cost of liability consumed.	Expense for transaction costs on transferring or fulfilling the liability.	Expense for consideration paid and income for value in use of asset consumed.
Price changes	Not recognised except to the extent that the liability is onerous.	Income and expense from holding gains and holding losses.	Reflected in income and expenses from changes in fair value. (May be separately identified).	Not recognised except to the extent price changes result in changes to expected cash flows.
Interest received	Interest expense, at historical rates.	Interest expense, at current rates.	Interest expense, at current rates (if separately identified).	Interest expense, at current rates (if separately identified).

Effect of events that cause a liability to become onerous	Expense representing the extent to which events have caused cash flows required to fulfil the liability so that historical cost no longer faithfully represents the liability.	Expense representing the extent to which events have caused cash flows required to fulfil the liability so that current cost no longer faithfully represents the liability.	Not applicable.	Expense representing the extent to which events have caused previous carrying amount to no longer faithfully represent the liability. .
Changes in estimates of future cash flows	For non-financial liabilities, none except for the present value of changes that make the liability onerous or reverse a previous provision for an onerous liability. For financial assets, income or expense for all changes in the estimated present value of future cash flows.	Reflected in income and expense from changes in current cost.	Reflected in income and expenses from changes in fair value. (May be separately identified).	Reflected in income or expense to the extent changes in estimates generate or reverse a previous provision for an onerous liability.
<p>(a) Income or expenses will arise on the initial recognition of a liability acquired in an exchange of unequal value. This income or expense will be the difference between the amount at which the acquired asset is stated under the measurement basis and the consideration received for assuming the liability.</p> <p>(b) Chapter 7 discusses the presentation and disclosure of items of income or expense in statements(s) of financial performance.</p>				

Factors to consider when selecting a measurement basis

- 6.45 When selecting a measurement basis, it is important to consider the information that measurement basis will produce in both the statement of financial position and the statement(s) of financial performance.
- 6.46 The following paragraphs discuss factors to be considered in selecting a measurement basis for an asset or a liability and for the related income and expenses.
- 6.47 The relative importance of each of the factors will depend upon facts and circumstances. In most cases, no one factor, considered in isolation, will be conclusive as to the measurement basis that should be selected.
- 6.48 For information provided by a particular measurement basis to be useful to the users of financial statements, it must be relevant and it must faithfully represent what it purports to represent. In addition, the information provided should be, as far as possible, comparable, verifiable, timely and understandable.

- 6.49 As is explained in paragraph [2.21], the most efficient and effective process for applying the fundamental qualitative characteristics is to identify the information about an economic phenomenon that would be most relevant if it is available and can be faithfully represented. If that information is not available or cannot be faithfully represented, the next most relevant type of information is considered. Factors that affect the relevance of measures of assets, liabilities, income and expenses are discussed in paragraphs 6.52–6.60; faithful representation is discussed in paragraphs 6.61–6.64, and the enhancing qualitative characteristics (comparability, verifiability, timeliness and understandability) are discussed in paragraphs 6.65–6.79.
- 6.50 Measures of assets, liabilities, income and expenses are used in the measurement of recognised items, and in presentation and disclosure. The following discussion focuses on the factors to be considered in selecting a measurement basis for recognised items. Nevertheless, some of that discussion may also apply to the selection of a measurement basis for disclosure in the notes to the financial statements of measures of unrecognised assets and unrecognised liabilities and of changes in them. In some cases relevant information is disclosed in the notes to the financial statements using a measurement basis different from that used in the statement of financial position and the statement(s) of financial performance (see paragraph 6.XX) *[not in this draft]*.
- 6.51 Paragraphs 6.XX–6.XX *[not in this draft]* discuss additional factors to consider in selecting a measurement basis on initial recognition. Initial measurement and subsequent measurement cannot be considered separately. If the initial measurement basis and subsequent measurement basis are not consistent, income and expenses will be recognised solely because of the change in measurement basis. Recognising such income or expenses might appear to depict a transaction or other event when, in fact, no such transaction or event has occurred. Hence, the choice of measurement basis for an asset or a liability and the related income or expenses is determined by considering both the initial measurement and the subsequent measurement.

Relevance

- 6.52 The relevance of a measurement basis for an asset or a liability and the related income and expenses is affected by:
- (a) the characteristics of the asset or the liability; and
 - (b) how that asset or liability contributes to future cash flows.

Characteristics of the asset or liability

- 6.53 The relevance of a measurement basis depends on the characteristics of the asset or liability, in particular, whether the cash flows are highly variable, or the value is sensitive to market factors or other risks.
- 6.54 If the cash flows of a financial asset or financial liability are variable—particularly if they comprise more than principal and interest—amortised cost may not provide relevant information. Amortised cost allocates interest revenue or expense to the relevant period, based on contractual cash flows. If the cash flows of a financial asset or financial liability are variable, use of amortised cost is complex and may be costly.

- 6.55 If the value of an asset or liability is sensitive to market factors or other risks, its historical cost might be significantly different from its current value at the reporting date. That current value of assets or liabilities may provide information that is more relevant than historical cost for user's assessment of the following features identified in paragraph [1.13]:
- (a) the reporting entity's financial strengths and weaknesses;
 - (b) the entity's liquidity and solvency;
 - (c) the entity's need for additional financing and how successful it is likely to be in obtaining that financing; and
 - (d) management's stewardship of the reporting entity's economic resources.
- 6.56 Furthermore, if historical cost is used, changes in value are not reported when that value changes, but only when the asset or liability is disposed of (derecognised). This could be incorrectly interpreted as implying that all the income or expenses arose from events in the period of disposal (derecognition), rather than from events in the periods during which the asset or liability was held. Measurement at historical cost also does not communicate the entity's exposure to risk arising from holding the asset or liability.

Contribution to future cash flows

- 6.57 As noted in paragraph [1.14], some economic resources generate cash flows directly; in other cases, economic resources are used in combination to generate cash flows, and thus generate cash flows indirectly. How economic resources generate cash flows depends, in part, on the nature of the business activities conducted by the entity.
- 6.58 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently, without a significant economic penalty, a measurement basis that reflects the present value of the future cash flows: that is, fair value or value in use (for liabilities, fulfilment value) is likely to be relevant.
- 6.59 When a business activity involves the use of several resources that generate cash flows indirectly, by being used in combination to produce and market goods or services to customers, a cost-based measurement basis is likely to provide relevant information. The expense reported will then reflect the cost of assets consumed in a period, and a comparison of that expense with the revenue of the period provides information on the margins achieved in the period. Information about margins can be used as some of the inputs needed to predict future margins and hence in assessing the entity's prospects for future cash flows (see paragraphs 6.28–6.30 above). Often an entity cannot sell assets held for use in such an activity without a significant economic penalty, and its inventory typically cannot be sold to a customer, except by using other resources in the entity's production and marketing activities. Where these activities are significant, cost-based information, which reports the cost of consumption and the margin made on sales of products or services, may be more relevant than fair value which reflects the amount that would be received on a transaction that is unlikely to take place.
- 6.60 Where assets and liabilities are held as part of a business activity that is managed with a view to collecting contractual cash flows, a cost-based measurement basis may provide relevant information on the margin between the contractual yield and the entity's cost of borrowing. However, if the cash flows

of a financial asset or financial liability are changed by factors other than principal and interest, the reported margin on an amortised cost basis would include the effect of those other changes, which may make it less relevant.

Faithful representation

- 6.61 As noted in paragraphs [2.15] and [2.19], a perfectly faithful representation is free from error, but this does not mean that measures must be perfectly accurate in all respects. For example, an estimate of an unobservable price can be faithfully represented if it is described as being an estimate, if the nature and limitations of the estimating process are explained, and if no errors have been made in selecting and applying the process for developing the estimate.
- 6.62 When assets and liabilities are related in some way, using different measurement bases for those assets and liabilities can create a measurement inconsistency (an ‘accounting mismatch’). Measurement inconsistencies can result in financial statements that do not faithfully represent the entity’s financial position and financial performance. Consequently, in some circumstances, using the same measurement basis for related assets or liabilities may provide more useful information for users of financial statements than using dissimilar measurement bases. This may be particularly likely when the cash flows from one item are directly linked to the cash flows from another item.

Measurement uncertainty

- 6.63 Measurement uncertainty affects whether information provided by a measurement basis provides a faithful representation of the financial position and financial performance of an entity (see paragraphs [2.12–2.13]). A high level of measurement uncertainty does not prevent the use of a measurement basis that provides the most relevant information. However, in some cases, the level of measurement uncertainty is so high that information generated by a measurement basis may not provide a faithful representation, in which case a different measurement basis should be selected. Moreover, if no measurement basis for an asset or a liability would result in a faithful representation, it is not appropriate to recognise the asset or the liability (see paragraph [5.13]).
- 6.64 Measurement uncertainty is different from outcome uncertainty. For example, if the fair value of an asset is observable in an active market, no uncertainty is associated with the measurement of that fair value, even though it is uncertain how much cash the asset will ultimately produce. Nevertheless, outcome uncertainty may sometimes contribute to measurement uncertainty. For example, there may be a high level of uncertainty about the cash flows that a unique asset will produce (outcome uncertainty) and estimating a current value of that asset may depend on a model whose validity is untested and that requires inputs that are difficult to verify.

Enhancing qualitative characteristics and the cost constraint

- 6.65 The enhancing qualitative characteristics of comparability, verifiability and understandability also have implications for the selection of a measurement basis. However, the enhancing qualitative characteristic of timeliness has no specific implications for measurement.
- 6.66 As with all other areas of financial reporting, cost constrains the selection of a measurement basis. Hence, to justify the selection of a measurement basis, the benefits of the information provided to the

users of financial statements by that measurement basis must outweigh the cost of providing that information.

- 6.67 The following paragraphs discuss general implications of the enhancing qualitative characteristics and the cost constraint for the selection of a measurement basis. Implications specific to historical cost are discussed in paragraphs 6.72 to 6.74; implications for fair value and value in use are discussed in paragraphs 6.75 to 6.78; and implications for current cost are discussed in paragraph 6.79.
- 6.68 Comparability implies using measurement bases that are the same between periods and between entities.
- 6.69 A change in measurement basis can make financial statements less understandable. However, a change may be justified if other factors outweigh the reduction in understandability; for example, if the change results in more relevant information. In such cases, disclosures may be needed to enable users to understand the effect of the change in measurement basis.
- 6.70 Understandability depends partly on the number of different measurement bases used and on whether they change over time. In general, if the number of measurement bases used in a set of financial statements increases, the resulting information becomes more complex (and, hence, less understandable), and the totals or subtotals in the statement of financial position and the statement(s) of financial performance become less meaningful. However, it could be appropriate to increase the number of measurement bases used if that is necessary to provide more relevant information.
- 6.71 Verifiability implies using measurement bases that result in measures that can be independently corroborated either directly (such as by observing prices) or indirectly (such as by checking inputs to a model). If a measure cannot be verified, disclosures may be needed in the notes to the financial statements to enable users of financial statements to understand the inputs used. In some such cases, it may be necessary to specify the use of a different measurement basis.

Historical cost

- 6.72 In many situations, it is simpler and less expensive to provide information about historical cost than information using current value measurement bases. In addition, measures prepared using the historical cost measurement basis are generally well understood and, in many cases, verifiable.
- 6.73 However, estimating consumption and identifying and measuring impairment losses or onerous liabilities can be subjective. Hence, the historical cost of an asset or a liability can sometimes be as difficult to estimate as a current value. In addition, as noted in paragraph 6.13, historical cost can be difficult to determine when there is no observable transaction price for the asset or the liability being measured. For this reason, some amounts reported on historical cost basis may lack verifiability.
- 6.74 Using the historical cost measurement basis, similar assets or liabilities that are acquired or incurred at different times can be reported in the financial statements at very different amounts. This can reduce comparability both between reporting entities and within the same reporting entity.

Fair value and value in use

- 6.75 Because fair value is determined from the perspective of market participants, instead of the perspective of the entity, and is independent of when the asset or the liability was acquired or incurred, identical

assets will, in principle, be measured at the same amount by entities that have access to the same markets. This can enhance comparability both between reporting entities and within the same reporting entity.

6.76 If the fair value of an asset or a liability can be observed in an active market, the process of fair value measurement is low-cost, simple and easy to understand, and the fair value is verifiable.

6.77 Valuation techniques (sometimes including the use of cash-flow-based measurements) may be needed to estimate fair value where it cannot be observed in an active market, and are generally needed when determining value in use and fulfilment value. Depending on the techniques used:

- (a) the estimation process may be costly and complex.
- (b) the inputs into the process may be subjective and it may be difficult to verify both the inputs and the validity of the process itself. As a consequence, entities may measure identical assets or liabilities at different amounts, which reduces comparability.

6.78 For many assets that are used in combination with other assets, value in use cannot be determined meaningfully for individual assets. Instead, the value in use is determined for a group of assets and the result is then allocated to individual assets. This requires consideration of the appropriate group of assets, and care to exclude the effect of synergies with other assets, which is often subjective. Hence, determining the value in use of an asset used in combination with other assets can be a costly process and its complexity and subjectivity reduces verifiability. For these reasons, value in use may not be a practical measurement basis for periodic remeasurements of such assets. However, it may be useful for occasional remeasurements of assets (for example, when it is used in an impairment test to determine whether a historical cost measure is fully recoverable).

Current cost

6.79 Application of current cost can be complex and subjective. For example, if prices are available only for new assets, the current cost of a used asset might be estimated by adjusting the price of a new asset to reflect the current age and condition of the asset that is held by the entity. Furthermore, because of changes in technology and business practices, many assets would not be replaced with identical assets, so a further subjective adjustment to the price of a new asset would be required in order to estimate the current cost of the existing asset. Furthermore, the disaggregation of changes in current cost carrying amounts between holding gains and losses and the cost of consumption (see paragraph 6.43 above) may be complex and require arbitrary assumptions. Because of these difficulties, current cost measures may lack verifiability and understandability.

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