

Insights

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PUBLIC SECTOR

Proposed concepts for measurement of assets and liabilities

The Governmental Accounting Standards Board (GASB) recently issued a proposed Concepts Statement, [Measurement of Elements of Financial Statements](#), which would guide the GASB when establishing future standards regarding how state and local governments would determine the dollar amount at which to report assets and liabilities.

The GASB is proposing two approaches to measuring assets and liabilities—initial amounts and remeasured amounts. Initial amounts are the transaction price or amount assigned when an asset is acquired or a liability is incurred, including subsequent modifications to that price or amount, such as through depreciation or impairment. Remeasured amounts are determined anew as of the date of each year's financial statements.

The GASB also is proposing four measurement attributes, which are defined as the feature or characteristic of an asset or liability that is being measured:

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

The proposed Concepts Statement is available for comment until September 30, 2013

Preliminary views on fair value

The Governmental Accounting Standards Board (GASB) recently issued its Preliminary Views regarding the measurement of fair value and the application of fair value, including note disclosures. The Preliminary Views, [Fair Value Measurement and Application](#), describes how fair value should be defined and measured, which assets and liabilities should be measured at fair value, and which information about fair value should be disclosed in the notes to the financial statements. It is the GASB's preliminary view that the definition of fair value should be 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. The objective of a fair value measurement would be to estimate the exit price of assets and liabilities using



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observable or unobservable inputs.

In determining an appropriate fair value measurement, the characteristics of the asset or liability would be taken into account, such as the condition and location of an asset. Markets also would be considered. In a fair value measurement, the sale of an asset or the transfer of a liability would be expected to take place in the principal market or, in the absence of a principal market, in the most advantageous market to which a government has access. The GASB believes that transaction costs, such as commissions, do not meet the definition of an asset and, therefore, should be recognized when incurred.

It is the GASB's preliminary view that investments generally should be measured at fair value. An investment would be defined as a security or other asset that a government holds primarily for the purpose of income or profit and the present service capacity of which is based solely on its ability to generate cash, to be sold to generate cash, or to procure services for the citizenry. Certain investments would be excluded from measurement at fair value and should continue to be measured according to existing GASB standards, such as investments in money market instruments with remaining maturity at time of purchase of one year or less.

Under current accounting standards, state and local governments are required to disclose how they arrived at their measures of fair value if they are not based on quoted market prices. In the Preliminary Views document, the GASB proposes expanding those disclosures to include the levels of inputs a government uses to measure fair value and the judgments made to arrive at those inputs.

The Preliminary Views are available for comment until September 30, 2013.



**50 West Broadway, Suite 600
Salt Lake City, Utah 84101**

**For additional information, contact Robert M. Jensen, CPA, S. Jeffrey Jones, CPA,
Bruce M. Kartchner, CPA.CITP or Charles D. Roe, CPA at 801.328.4408**

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