

# **Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements**

## **Specific Matter for Comment 1**

Should the role of the Framework be to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases?

The role of the Framework is to identify factors that are relevant in selecting a measurement basis for particular assets and liabilities in specific circumstances, rather than specify a single measurement basis or combination of bases. The specification of a measurement basis of assets and liabilities in financial statements should be the prerogative of individual Standards.

Alternatively, the Framework is to specify all measurement bases and concept and state that historical cost is the most commonly adopted basis in combination with other bases.

## **Specific Matter for Comment 2**

If, in your view the Framework should specify a measurement basis or combination of bases (or approach in the case of deprival value), which should that be?

### *Single Measurement Bases*

- (a) Historical cost.
- (b) Market value.
- (c) Replacement cost.

### *Combinations of Bases/Approach*

- (d) Deprival value.
- (e) Historical cost and market value.
- (f) Replacement cost and market value.
- (g) Historical cost, replacement cost, and market value.

### *Others*

- (h) Another measurement basis or combination of bases/approach.

Please explain why you support a particular measurement basis or combination of measurement bases/approach and your reasons for rejecting alternatives.

NAO opines that all measurement bases and concept should be included in the Framework since each basis has its advantages and disadvantages and can be used in certain instances. In particular, the historical cost model and the deprival value model should be used in the Framework. The historical cost model is particularly important as it is the measurement basis which is mostly in use. The deprival value model is to be included as it does not specify one current cost model but indicates the current value that is most relevant to the situation. The remaining measurement bases (market value and replacement cost), although referring to current cost, have one measurement basis.

NAO rejects the alternative that some measurement bases are excluded since each measurement basis can be applied in relevant circumstances and therefore should be included in the Framework.

### **Specific Matter for Comment 3**

The Consultation Paper discusses the following measurement bases: historical cost, market value, and replacement cost. It also discusses the deprival value concept which does not describe a single measurement basis, but rather a means by which a basis may be selected that is relevant to the circumstances. Value in use and net selling price are discussed in the context of the deprival value model.

In your view, is this discussion complete, balanced and fair? If not, please indicate what in your view is missing or in what respects you consider the discussion does not draw out the strengths and weaknesses of the various bases (or approach in the case of deprival value).

Yes, NAO believes that the discussion is complete, balanced and fair and draws out the strengths and weaknesses of the various bases. One might perhaps include under the historical cost model the possibility of revaluing assets to their fair value.

A separate section might also be included to discuss the concepts of capital and capital maintenance and indicate more specifically and in greater length the effects of each measurement basis on the concepts of capital.

### **Specific Matter for Comment 4**

In your view, should:

- (a) The effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition; and
- (b) The effect of changes in own credit risk be reflected when liabilities are subsequently re-measured?

NAO opines that the effect of an entity's own credit risk be reflected in the measurement of liabilities at initial recognition. It also believes that the effect of changes in own credit risk be reflected when liabilities are subsequently re-measured. Undertaking such an approach would enhance comparability of the financial statements.

### **Specific Matter for Comment 5**

In your view, where assets are not restricted in use and therefore may be sold for an alternative use, should the measurement reported in the statement of financial position reflect:

- (a) Only the service potential relating to the existing use; or
- (b) Include the incremental value relating to its possible sale for an alternative use?

NAO opines that where assets are not restricted in use and therefore may be sold for an alternative use, the measurement reported in the statement of financial position is to reflect only the service potential relating to the existing use. This is due to the fact that as

mentioned in the framework there must be strong evidence to support the possibility of a sale of the asset for the incremental value relating to its possible sale for an alternative use to be included.