Statutory Board Financial Reporting Standards Conceptual Framework for Financial Reporting

The Conceptual Framework was issued in August 2019 and it superseded the *Framework for the Preparation and Presentation of Financial Statements*.

Certain principles in the Statutory Board Financial Reporting Standards Conceptual Framework for Financial Reporting ("SB-FRS Conceptual Framework") have been adapted from the International Public Sector Accounting Standards' Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

This SB-FRS Conceptual Framework includes select text and extracts from the *Handbook of International Public Sector Accounting Pronouncements, 2016 Edition, Handbook of International Public Sector Accounting Pronouncements, 2017 Edition*, and *Handbook of International Public Sector Accounting Pronouncements, 2018 Edition* of the International Public Sector Accounting Standards Board, published by IFAC and is used with permission of IFAC.

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STATUS AND PURPOSE OF THE *SB-FRS CONCEPTUAL FRAMEWORK*

SP1.1 The *SB-FRS Conceptual Framework for Financial Reporting* (*SB-FRS Conceptual Framework*) describes the objective of, and the concepts for, general purpose financial reporting. The purpose of the *SB-FRS Conceptual Framework* is to:

(a) assist in the development of Statutory Board-Financial Reporting Standards (SB-FRS or Standards) that are based on consistent concepts;
(b) assist preparers to develop consistent accounting policies when no Standard applies to a particular transaction or other event, or when a Standard allows a choice of accounting policy; and
(c) assist all parties to understand and interpret the Standards.

SP1.2 The *SB-FRS Conceptual Framework* is not a Statutory Board Financial Reporting Standard. Nothing in the *SB-FRS Conceptual Framework* overrides any Standard or any requirement in a Standard.

SP1.3 The *Singapore Financial Reporting Standards (SFRS)* is the guiding framework in setting the *SB-FRS*. However, each SFRS will be individually considered, and where necessary, modifications will be made, or additional guidelines and new Standards will be issued, to address the unique needs of Statutory Boards. Similarly, the *SB-FRS Conceptual Framework* is largely derived from the *Conceptual Framework* of the SFRS, but modifications are made to address the unique needs of Statutory Boards, including but not limited to adding certain concepts from the *Conceptual Framework* of the *International Public Sector Accounting Standards*.

SP1.4 The *SB-FRS Conceptual Framework* may be revised from time to time on the basis of the Statutory Boards' experience of using it. Revisions of the *SB-FRS Conceptual Framework* will not automatically lead to changes to the Standards. Any proposal to amend a Standard would be subject to the deliberation of the Advisory Committee on Accounting Standards for Statutory Boards (Advisory Committee) before the Accountant-General makes the decision on whether to amend the Standard.

SP1.5 The *SB-FRS Conceptual Framework* provides the foundation for Standards that:

(a) contribute to transparency by enhancing the comparability and quality of financial information, enabling users of Statutory Board financial statements to make informed resource allocation, economic and policy decisions.
(b) strengthen accountability by reducing the information gap between Statutory Boards and users of Statutory Board financial statements. Standards based on the *SB-FRS Conceptual Framework* provide information needed to hold management to account.

Introduction

1.1 The objective of general purpose financial reporting forms the foundation of the *SB-FRS Conceptual Framework*. Other aspects of the *SB-FRS Conceptual Framework* — the qualitative characteristics of, and the cost constraint on, useful financial information, a reporting entity concept, elements of financial statements, recognition and derecognition, measurement, presentation and disclosure — flow logically from the objective.

Objective, usefulness and limitations of general purpose financial reporting

1.2 The primary function of a Statutory Board[1] is to provide public services that enhance or maintain the well-being of citizens and other eligible residents. In most cases, these services are provided as a result of a non-exchange transaction and in a non-competitive environment. Statutory Boards are accountable to those that provide them with resources, and to those that depend on them to use those resources to deliver services during the reporting period and over the longer term.

1.3 The objective of general purpose financial reporting[2] is to ensure consistency in application of accounting standards for Statutory Boards, and to provide financial information about the reporting Statutory Board that is relevant and faithfully represents what it purports to represent, so as to be useful to the Parliament, Government, existing and potential lenders, other creditors, and the general public in:

(a) making resource allocation, economic and policy decisions;
(b) buying, selling or holding debt instruments;
(c) providing or settling loans and other forms of credit; or
(d) assessing management's[3] stewardship of the Statutory Board's economic resources.

Parliament, Government and the General Public

1.4 The Parliament represents the people in making laws, controlling Government's finances and taking up a critical/inquisitorial role to check on the actions of Ministries and Statutory Boards. Statutory Boards are of interest to the Parliament as they are established to deliver public services on behalf of the Government and to undertake activities that are integral to their parent Ministries' core functions.

1.5 The Government monitors Statutory Boards to ensure that they deliver public services on behalf of it.

1.6 The general public is recipient of the services provided by Statutory Boards and pays for the services either directly to the Statutory Boards or indirectly through taxes.

1.7 The Parliament, Government and the general public are interested in the resources allocated/controlled by Statutory Boards, how these resources are utilised in delivering public services, and the performance of Statutory Boards in delivering public services.

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[1] A Statutory Board comprises the public bodies included within the First, Second and Third Schedules of the Public Sector (Governance) Act 2018.
[2] Throughout the *SB-FRS Conceptual Framework*, the terms 'financial reports' and 'financial reporting' refer to general purpose financial reports and general purpose financial reporting unless specifically indicated otherwise.
[3] Throughout the *SB-FRS Conceptual Framework*, the term 'management' refers to management and the governing board of a Statutory Board unless specifically indicated otherwise.

Capital Providers

1.8 Statutory Board obtains economic resources from capital providers in order to carry out its public functions. Capital providers include the Government as equity provider, and existing and potential lenders and other creditors.

(a) *Equity providers*. The Government is also the provider of equity to Statutory Boards via equity injections. While a financial return is not the main objective for injecting equity into Statutory Boards, the Government nevertheless requires dividends from Statutory Boards which have received equity, in order to instill financial discipline.

(b) *Lenders*. Lenders, including purchasers of traded debt instruments, provide financial resources to a Statutory Board by lending it economic resources (usually cash). Lenders generally expect to receive a return in the form of interest, repayments of borrowings and increases in the price of debt securities.

(c) *Other creditors*. Other creditors provide resources as a consequence of their relationship with a Statutory Board, even though the relationship is not primarily that of a capital provider. For example, employees provide human capital in exchange for a salary or other remuneration, some of which may be deferred for many years. Suppliers may extend credit to facilitate a sale. Customers may prepay for goods or services to be provided by the Statutory Board. To the extent that employees, suppliers, customers or other groups make decisions relating to providing capital to the Statutory Board in the form of credit, they are capital providers.

1.9 The expectations of Government as equity provider, and existing and potential lenders and other creditors, about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the Statutory Board and on their assessment of management's stewardship of the Statutory Board's economic resources. They need information to help them make those assessments.

1.10 To make the assessments described in paragraph 1.9, the Government as equity provider, and existing and potential lenders and other creditors need information about:

(a) the economic resources of the Statutory Board, claims against the Statutory Board and changes in those resources and claims; and
(b) how efficiently and effectively the Statutory Board's management have discharged their responsibilities to use the Statutory Board's economic resources.

1.11 Many existing and potential lenders and other creditors, cannot require reporting Statutory Boards to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are amongst the primary users to whom general purpose financial reports are directed.

1.12 However, general purpose financial reports do not and cannot provide all of the information that existing and potential lenders and other creditors need. Those users need to consider pertinent information from other sources, for example, general economic conditions and expectations, political events and political climate, and industry and company outlooks.

1.13 General purpose financial reports are not designed to show the value of a reporting Statutory Board; but they provide information to help existing and potential lenders and other creditors to estimate the value of the reporting Statutory Board.

1.14 Individual primary users have different, and possibly conflicting, information needs and desires. The SB-FRS will seek to provide the information set that will meet the needs of the maximum number of primary users. However, focusing on common information needs does not prevent the reporting Statutory Board from including additional information that is most useful to a particular subset of primary users.

1.15 The management of a reporting Statutory Board is also interested in financial information about the Statutory Board. However, management need not rely on general purpose financial reports because it is able to obtain the financial information it needs internally.

1.16 Other parties, such as regulators, may also find general purpose financial reports useful. However, those reports are not primarily directed to these other groups.

1.17 To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The *SB-FRS Conceptual Framework* establishes the concepts that underlie those estimates, judgements and models.

Information about a reporting Statutory Board's economic resources, claims against the Statutory Board and changes in resources and claims

1.18 General purpose financial reports provide information about the financial position of a reporting Statutory Board, which is information about the Statutory Board's resources and the claims against the reporting Statutory Board. Financial reports also provide information about the effects of transactions and other events that change a reporting Statutory Board's economic resources and claims. Both types of information provide useful input for decisions relating to providing resources to a Statutory Board.

Economic resources and claims

1.19 Information about the nature and amounts of a reporting Statutory Board's economic resources and claims can help users to identify the reporting Statutory Board's financial strengths and weaknesses. That information can help users to assess the reporting Statutory Board's liquidity and solvency, its needs for additional financing and how successful it is likely to be in obtaining that financing. That information can also help users to assess management's stewardship of the Statutory Board's economic resources. Information about priorities and payment requirements of existing claims helps users to predict how future cash flows will be distributed among those with a claim against the reporting Statutory Board.

1.20 Different types of economic resources affect a user's assessment of the reporting Statutory Board's prospects for future cash flows differently. Some future cash flows result directly from existing economic resources, such as accounts receivable. Other cash flows result from using several resources in combination to deliver public services. Although those cash flows cannot be identified with individual economic resources (or claims), users of financial reports need to know the nature and amount of the resources available for use in a reporting Statutory Board's operations.

Changes in economic resources and claims

1.21 Changes in a reporting Statutory Board's economic resources and claims result from that Statutory Board's financial performance and from other events or transactions such as issuing debt or equity instruments. To properly assess both the prospects for future net cash inflows to the reporting Statutory Board and management's stewardship of the reporting Statutory Board's economic resources, users need to be able to identify those two types of changes.

1.22 Information about a reporting Statutory Board's financial performance helps users to understand the return that the Statutory Board has produced on its economic resources. Information about the return the Statutory Board has produced can help users to assess management's stewardship of the Statutory Board's economic resources. Information about the variability and components of that return is also important. Information about a reporting Statutory Board's past financial performance and how its management discharged its stewardship responsibilities is usually helpful in predicting the Statutory Board's future returns on its economic resources.

Financial performance reflected by accrual accounting

1.23 Accrual accounting depicts the effects of transactions and other events and circumstances on a reporting Statutory Board's economic resources and claims in the periods in which those effects occur, even if the resulting cash receipts and payments occur in a different period. This is important because information about a reporting Statutory Board's economic resources and claims and changes in its economic resources and claims during a period provides a better basis for assessing the Statutory Board's past and future performance than information solely about cash receipts and payments during that period.

1.24 Information about a reporting Statutory Board's financial performance during a period, reflected by changes in its economic resources and claims other than by obtaining additional resources directly from capital providers, is useful in assessing the Statutory Board's past and future ability to generate net cash inflows. That information indicates the extent to which the reporting Statutory Board has increased its available economic resources, and thus its capacity for generating net cash inflows through its operations rather than by obtaining additional funds directly from capital providers. Information about a reporting Statutory Board's financial performance during a period can also help users to assess management's stewardship of the Statutory Board's economic resources.

1.25 Information about a reporting Statutory Board's financial performance during a period may also indicate the extent to which events such as changes in market prices or interest rates have increased or decreased the Statutory Board's economic resources and claims, thereby affecting the Statutory Board's ability to generate net cash inflows.

Financial performance reflected by past cash flows

1.26 Information about a reporting Statutory Board's cash flows during a period also helps users to assess the Statutory Board's ability to generate future net cash inflows and to assess management's stewardship of the Statutory Board's economic resources. That information indicates how the reporting Statutory Board obtains and spends cash, including information about its borrowing and repayment of debt, cash dividends or other cash distributions to the Government, and other factors that may affect the Statutory Board's liquidity or solvency. Information about cash flows helps users understand a reporting Statutory Board's operations, evaluate its financing and investing activities, assess its liquidity or solvency and interpret other information about financial performance.

Changes in economic resources and claims not resulting from financial performance

1.27 A reporting Statutory Board's economic resources and claims may also change for reasons other than financial performance, such as issuing debt or equity instruments. Information about this type of change is necessary to give users a complete understanding of why the reporting Statutory Board's economic resources and claims changed and the implications of those changes for its future financial performance.

Information about use of the Statutory Board's economic resources

1.28 Information about how efficiently and effectively the reporting Statutory Board's management has discharged its responsibilities to use the Statutory Board's economic resources helps users to assess management's stewardship of those resources. Such information is also useful for predicting how efficiently and effectively management will use the Statutory Board's economic resources in future periods. Hence, it can be useful for assessing the Statutory Board's prospects for future net cash inflows.

1.29 Examples of management's responsibilities to use the Statutory Board's economic resources include protecting those resources from unfavourable effects of economic factors, such as price and technological changes, and ensuring that the Statutory Board complies with applicable laws, regulations and contractual provisions.

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CHAPTER 2—QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

Introduction

2.1 The qualitative characteristics of useful financial information discussed in this chapter identify the types of information that are likely to be most useful to the Parliament, Government, existing and potential lenders, other creditors, and the general public for making decisions about the reporting Statutory Board on the basis of information in its financial report (financial information).

2.2 Financial reports provide information about the reporting Statutory Board's economic resources, claims against the reporting Statutory Board and the effects of transactions and other events and conditions that change those resources and claims. (This information is referred to in the *SB-FRS Conceptual Framework* as information about the economic phenomena.) Some financial reports also include explanatory material about management's expectations and strategies for the reporting Statutory Board, and other types of forward-looking information.

2.3 The qualitative characteristics of useful financial information apply to financial information provided in financial statements, as well as to financial information provided in other ways. Cost, which is a pervasive constraint on the reporting Statutory Board's ability to provide useful financial information, applies similarly. However, the considerations in applying the qualitative characteristics and the cost constraint may be different for different types of information. For example, applying them to forward-looking information may be different from applying them to information about existing economic resources and claims and to changes in those resources and claims.

Qualitative characteristics of useful financial information

2.4 If financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

Fundamental qualitative characteristics

2.5 The fundamental qualitative characteristics are relevance and faithful representation.

Relevance

2.6 Relevant financial information is capable of making a difference in the decisions made by users. Information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources.

2.7 Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.

2.8 Financial information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Financial information need not be a prediction or forecast to have predictive value. Financial information with predictive value is employed by users in making their own predictions.

2.9 Financial information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

2.10 The predictive value and confirmatory value of financial information are interrelated. Information that has predictive value often also has confirmatory value. For example, information about the current level and structure of a Statutory Board's economic resources and claims help users to predict a Statutory Board's ability to respond to changing circumstances and anticipated future service delivery needs. The same information helps to confirm or correct users' past predictions about that ability. The results of those comparisons can help a user to correct and improve the processes that were used to make those previous predictions.

Materiality

2.11 Information is material if omitting it or misstating it could influence decisions that the primary users of general purpose financial reports make on the basis of those reports, which provide financial information about a specific reporting Statutory Board. In other words, materiality is a Statutory Board-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual Statutory Board's financial report. Consequently, it is not possible to specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

Faithful representation

2.12 Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the substance of the phenomena that it purports to represent. In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.

2.13 To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The objective of standard-setters is to maximise those qualities to the extent possible.

2.14 A complete depiction includes all information necessary for a user to understand the phenomenon being depicted, including all necessary descriptions and explanations. For example, a complete depiction of a group of assets would include, at a minimum, a description of the nature of the assets in the group, a numerical depiction of all of the assets in the group, and a description of what the numerical depiction represents (for example, historical cost or fair value). For some items, a complete depiction may also entail explanations of significant facts about the quality and nature of the items, factors and circumstances that might affect their quality and nature, and the process used to determine the numerical depiction.

2.15 A neutral depiction is without bias in the selection or presentation of financial information. A neutral depiction is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to increase the probability that financial information will be received favourably or unfavourably by users. Neutral information does not mean information with no purpose or no influence on behaviour. On the contrary, relevant financial information is, by definition, capable of making a difference in users' decisions.

2.16 Neutrality is supported by the exercise of prudence. Prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses. Such misstatements can lead to the overstatement or understatement of income or expenses in future periods.

2.17 The exercise of prudence does not imply a need for asymmetry, for example, a systematic need for more persuasive evidence to support the recognition of assets or income than the recognition of liabilities or expenses. Such asymmetry is not a qualitative characteristic of useful financial information. Nevertheless, particular Standards may contain asymmetric requirements if this is a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

2.18 Faithful representation does not mean accurate in all respects. Free from error means there are no errors or omissions in the description of the phenomenon, and the process used to produce the reported information has been selected and applied with no errors in the process. In this context, free from error does not mean perfectly accurate in all respects. For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been identified in selecting and applying an appropriate process for developing the estimate.

2.19 When monetary amounts in financial reports cannot be observed directly and must instead be estimated, measurement uncertainty arises. The use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information.

Applying the fundamental qualitative characteristics

2.20 Information must both be relevant and provide a faithful representation of what it purports to represent if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon help users make good decisions.

2.21 The most efficient and effective process for applying the fundamental qualitative characteristics would usually be as follows (subject to the effects of enhancing characteristics and the cost constraint, which are not considered in this example). First, identify an economic phenomenon, information about which is capable of being useful to users of the reporting Statutory Board's financial information. Second, identify the type of information about that phenomenon that would be most relevant. Third, determine whether that information is available and whether it can provide a faithful representation of the economic phenomenon. If so, the process of satisfying the fundamental qualitative characteristics ends at that point. If not, the process is repeated with the next most relevant type of information.

2.22 In some cases, a trade-off between the fundamental qualitative characteristics may need to be made in order to meet the objective of financial reporting, which is to provide useful information about economic phenomena. For example, the most relevant information about a phenomenon may be a highly uncertain estimate. In some cases, the level of measurement uncertainty involved in making that estimate may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that phenomenon. In some such cases, the most useful information may be the highly uncertain estimate, accompanied by a description of the estimate and an explanation of the uncertainties that affect it. In other such cases, if that information would not provide a sufficiently faithful representation of that phenomenon, the most useful information may include an estimate of another type that is slightly less relevant but is subject to lower measurement uncertainty. In limited circumstances, there may be no estimate that provides useful information. In those limited circumstances, it may be necessary to provide information that does not rely on an estimate.

Enhancing qualitative characteristics

2.23 Comparability, verifiability, timeliness and understandability are qualitative characteristics that enhance the usefulness of information that both is relevant and provides a faithful representation of what it purports to represent. The enhancing qualitative characteristics may also help determine which of two ways should be used to depict a phenomenon if both are considered to provide equally relevant information and an equally faithful representation of that phenomenon.

Comparability

2.24 Users' decisions involve choosing between alternatives, for example, in allocating resources amongst Statutory Boards. Consequently, information about a reporting Statutory Board is more useful if it can be compared with similar information about other Statutory Board and with similar information about the same Statutory Board for another period or another date.

2.25 Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. Unlike the other qualitative characteristics, comparability does not relate to a single item. A comparison requires at least two items.

2.26 Consistency, although related to comparability, is not the same. Consistency refers to the use of the same methods for the same items, either from period to period within a reporting Statutory Board or in a single period across Statutory Boards. Comparability is the goal; consistency helps to achieve that goal.

2.27 Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

2.28 Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting Statutory Board.

2.29 Although a single economic phenomenon can be faithfully represented in multiple ways, permitting alternative accounting methods for the same economic phenomenon diminishes comparability.

Verifiability

2.30 Verifiability helps assure users that information faithfully represents the economic phenomena it purports to represent. Verifiability means that different knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Quantified information need not be a single point estimate to be verifiable. A range of possible amounts and the related probabilities can also be verified.

2.31 Verification can be direct or indirect. Direct verification means verifying an amount or other representation through direct observation, for example, by counting cash. Indirect verification means checking the inputs to a model, formula or other technique and recalculating the outputs using the same methodology. An example is verifying the carrying amount of inventory by checking the inputs (quantities and costs) and recalculating the ending inventory using the same cost flow assumption (for example, using the first-in, first-out method).

2.32 It may not be possible to verify the accuracy of all explanations and forward-looking financial information until a future period, if at all. To help users decide whether they want to use that information, it would normally be necessary to disclose the underlying assumptions, the methods of compiling the information and other factors and circumstances that support the information.

Timeliness

2.33 Timeliness means having information available to decision-makers in time to be capable of influencing their decisions. Generally, the older the information is the less useful it is. However, some information may continue to be timely long after the end of a reporting period because, for example, some users may need to identify and assess trends.

Understandability

2.34 Classifying, characterising and presenting information clearly and concisely makes it understandable.

2.35 Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore possibly misleading.

2.36 Financial reports are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently. At times, even well-informed and diligent users may need to seek the aid of an adviser to understand information about complex economic phenomena.

Applying the enhancing qualitative characteristics

2.37 Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or does not provide a faithful representation of what it purports to represent.

2.38 Applying the enhancing qualitative characteristics is an iterative process that does not follow a prescribed order. Sometimes, one enhancing qualitative characteristic may have to be diminished to maximise another qualitative characteristic. For example, a temporary reduction in comparability as a result of prospectively applying a new Standard may be worthwhile to improve relevance or faithful representation in the longer term. Appropriate disclosures may partially compensate for non-comparability.

The cost constraint on useful financial reporting

2.39 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

2.40 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

2.41 Reporting financial information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence. An individual user of financial statements also receives benefits by making more informed decisions. However, it is not possible for general purpose financial reports to provide all the information that every user finds relevant.

2.42 In applying the cost constraint, the benefits of reporting particular information are assessed as to whether they are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed Standard, information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Standard are considered. In most situations, assessments are based on a combination of quantitative and qualitative information.

2.43 Because of the inherent subjectivity, different individuals' assessments of the costs and benefits of reporting particular items of financial information will vary. Therefore, costs and benefits in relation to financial reporting are considered generally, and not just in relation to individual reporting Statutory Boards. That does not mean that assessments of costs and benefits always justify the same reporting requirements for all Statutory Boards. Differences may be appropriate because of different sizes of Statutory Boards, different ways of raising capital (publicly or privately), different users' needs or other factors.

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CHAPTER 3— FINANCIAL STATEMENTS AND THE REPORTING ENTITY

Financial statements

3.1 Chapters 1 and 2 discuss information provided in general purpose financial reports and Chapters 3–8 discuss information provided in general purpose financial statements, which are a particular form of general purpose financial reports. Financial statements provide information about economic resources of the reporting Statutory Board, claims against the Statutory Board, and changes in those resources and claims, that meet the definitions of the elements of financial statements.

Objective and scope of financial statements

3.2 The objective of general purpose financial statements is to ensure consistency in application of accounting standards for Statutory Boards, and to provide financial information about the reporting Statutory Board that is relevant and faithfully represents what it purports to represent, so as to be useful to the Parliament, Government, existing and potential lenders, other creditors, and the general public in:
(a) making resource allocation, economic and policy decisions;
(b) buying, selling or holding debt instruments;
(c) providing or settling loans and other forms of credit; or
(d) assessing management's stewardship of the Statutory Board's economic resources.

3.3 That information is provided:

(a) in the statement of financial position, by recognising assets, liabilities and equity;
(b) in the statement(s) of financial performance, by recognising income and expenses; and
(c) in other statements and notes, by presenting and disclosing information about:
    (i) recognised assets, liabilities, equity, income and expenses (see paragraph 5.1), including information about their nature and about the risks arising from those recognised assets and liabilities;
    (ii) assets and liabilities that have not been recognised (see paragraph 5.6), including information about their nature and about the risks arising from them;
    (iii) cash flows;
    (iv) contributions from holders of equity claims and distributions to them; and
    (v) the methods, assumptions and judgements used in estimating the amounts presented or disclosed, and changes in those methods, assumptions and judgements.

Reporting period

3.4 Financial statements are prepared for a specified period of time (reporting period) and provide information about:

(a) assets and liabilities—including unrecognised assets and liabilities—and equity that existed at the end of the reporting period, or during the reporting period; and
(b) income and expenses for the reporting period.

3.5 To help users of financial statements to identify and assess changes and trends, financial statements also provide comparative information for at least one preceding reporting period.

3.6 Information about possible future transactions and other possible future events (forward-looking information) is included in financial statements if it:

(a) relates to the Statutory Board's assets or liabilities—including unrecognised assets or liabilities—or equity that existed at the end of the reporting period, or during the reporting period, or to income or expenses for the reporting period; and
(b) is useful to users of financial statements.

For example, if an asset or liability is measured by estimating future cash flows, information about those estimated future cash flows may help users of financial statements to understand the reported measures. Financial statements do not typically provide other types of forward-looking information, for example, explanatory material about management's expectations and strategies for the reporting Statutory Board.

3.7 Financial statements include information about transactions and other events that have occurred after the end of the reporting period if providing that information is necessary to meet the objective of financial statements (see paragraph 3.2).

Perspective adopted in financial statements

3.8 Financial statements provide information about transactions and other events viewed from the perspective of the reporting Statutory Board as a whole, not from the perspective of any particular group of financial statement users.

Going concern assumption

3.9 Financial statements are normally prepared on the assumption that the reporting Statutory Board is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the Statutory Board has neither the intention nor the need to wind up or to cease operations. If such an intention or need exists, the financial statements may have to be prepared on a different basis. If so, the financial statements describe the basis used.

The reporting entity

3.10 A reporting entity is a Statutory Board that is required, or chooses, to prepare financial statements. A reporting entity can be a single entity or a portion of an entity or can comprise more than one entity. A reporting entity is not necessarily a legal entity.

3.11 Sometimes one entity (parent) has control over another entity (subsidiary). If a reporting entity comprises both the parent and its subsidiaries, the reporting entity's financial statements are referred to as 'consolidated financial statements' (see paragraphs 3.15–3.16). If a reporting entity is the parent alone, the reporting entity's financial statements are referred to as 'unconsolidated financial statements' (see paragraphs 3.17–3.18).

3.12 If a reporting entity comprises two or more entities that are not all linked by a parent-subsidiary relationship, the reporting entity's financial statements are referred to as 'combined financial statements'.

3.13 Determining the appropriate boundary of a reporting entity can be difficult if the reporting entity:

(a) is not a legal entity; and
(b) does not comprise only legal entities linked by a parent-subsidiary relationship.

3.14 In such cases, determining the boundary of the reporting entity is driven by the information needs of the primary users of the reporting entity's financial statements. Those users need relevant information that faithfully represents what it purports to represent. Faithful representation requires that:

(a) the boundary of the reporting entity does not contain an arbitrary or incomplete set of economic activities;
(b) including that set of economic activities within the boundary of the reporting entity results in neutral information; and
(c) a description is provided of how the boundary of the reporting entity was determined and of what constitutes the reporting entity.

Consolidated and unconsolidated financial statements

3.15 Consolidated financial statements provide information about the assets, liabilities, equity, income and expenses of both the parent and its subsidiaries as a single reporting entity. That information is useful for users of financial statements in their assessment of the prospects for future net cash inflows to the parent. This is because net cash inflows to the parent include distributions to the parent from its subsidiaries, and those distributions depend on net cash inflows to the subsidiaries.

3.16 Consolidated financial statements are not designed to provide separate information about the assets, liabilities, equity, income and expenses of any particular subsidiary. A subsidiary's own financial statements are designed to provide that information.

3.17 Unconsolidated financial statements are designed to provide information about the parent's assets, liabilities, equity, income and expenses, and not about those of its subsidiaries. That information can be useful to users of financial statements because:

(a) a claim against the parent typically does not give the holder of that claim a claim against subsidiaries; and
(b) the amounts that can be legally distributed to holders of equity claims against the parent depend on the distributable reserves of the parent.

Another way to provide information about some or all assets, liabilities, equity, income and expenses of the parent alone is in consolidated financial statements, in the notes.

3.18 Information provided in unconsolidated financial statements is typically not sufficient to meet the information needs of users of financial statements. Accordingly, when consolidated financial statements are required, unconsolidated financial statements cannot serve as a substitute for consolidated financial statements. Nevertheless, a parent may be required, or choose, to prepare unconsolidated financial statements in addition to consolidated financial statements.

from paragraph

CHAPTER 4—THE ELEMENTS OF FINANCIAL STATEMENTS

Introduction

4.1 The elements of financial statements defined in the *SB-FRS Conceptual Framework* are:

(a) assets, liabilities and equity, which relate to a reporting Statutory Board's financial position; and
(b) income and expenses, which relate to a reporting Statutory Board's financial performance.

4.2 Those elements are linked to the economic resources, claims and changes in economic resources and claims discussed in Chapter 1, and are defined in Table 4.1.

Table 4.1—The elements of financial statements

Item discussed in Chapter 1	Element	Definition or description
Economic resource	Asset	A present resource controlled by the Statutory Board as a result of past events. A resource is a right with service potential or the potential to generate economic benefits.
Claim	Liability	A present obligation of the Statutory Board to transfer a resource as a result of past events.
	Equity	The residual interest in the assets of the Statutory Board after deducting all its liabilities.
Changes in economic resources and claims, reflecting financial performance	Income	Increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from equity providers.
	Expenses	Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to equity providers.
Other changes in economic resources and claims	-	Contributions from equity providers, and distributions to them.
	-	Exchanges of assets or liabilities that do not result in increases or decreases in equity.

Definition of an asset

4.3 An asset is a present resource controlled by the Statutory Board as a result of past events.

4.4 A resource is a right with service potential or the potential to generate economic benefits.

4.5 Service potential is the capacity to provide services that contribute to achieving the Statutory Board's objectives. Service potential enables a Statutory Board to achieve its objectives without necessarily generating net cash inflows.

4.6 Economic benefits are cash inflows or a reduction in cash outflows.

4.7 This section discusses three aspects of those definitions:

(a) right (see paragraphs 4.8–4.15);
(b) service potential or potential to produce economic benefits (see paragraphs 4.16–4.21); and
(c) control (see paragraphs 4.22–4.28).

Right

4.8 Rights that have service potential or the potential to generate economic benefits take many forms, including:

(a) rights that correspond to an obligation of another party (see paragraph 4.42), for example:
 (i) rights to receive cash.
 (ii) rights to receive goods or services.
 (iii) rights to exchange resources with another party on favourable terms. Such rights include, for example, a forward contract to buy a resource on terms that are currently favourable or an option to buy a resource.
 (iv) rights to benefit from an obligation of another party to transfer a resource if a specified uncertain future event occurs (see paragraph 4.40).
(b) rights that do not correspond to an obligation of another party, for example:
 (i) rights over physical objects, such as property, plant and equipment or inventories. Examples of such rights are a right to use a physical object or a right to benefit from the residual value of a leased object.
 (ii) rights to use intellectual property.

4.9 Many rights are established by contract, legislation or similar means. For example, a Statutory Board might obtain rights from owning or leasing a physical object, from owning a debt instrument or an equity instrument, or from owning a registered patent. However, a Statutory Board might also obtain rights in other ways, for example:

(a) by acquiring or creating know-how that is not in the public domain (see paragraph 4.25); or
(b) through an obligation of another party that arises because that other party has no practical ability to act in a manner inconsistent with its customary practices, published policies or specific statements (see paragraph 4.34).

4.10 Some goods or services—for example, employee services—are received and immediately consumed. A Statutory Board's right to obtain the benefits (including the use of the resource to deliver goods or services) produced by such goods or services exists momentarily until the Statutory Board consumes the goods or services.

4.11 Not all of a Statutory Board's rights are assets of that Statutory Board—to be assets of the Statutory Board, the rights must both have the potential to generate for the Statutory Board benefits beyond the benefits available to all other parties (see paragraphs 4.16–4.21) and be controlled by the Statutory Board (see paragraphs 4.22–4.28). For example, rights available to all parties without significant cost—for instance, rights of access to public goods, such as public rights of way over land, or know-how that is in the public domain—are typically not assets for the Statutory Boards that hold them.

4.12 A Statutory Board cannot have a right to obtain benefits from itself. Hence:

(a) debt instruments issued by the Statutory Board and repurchased and held by it are not resources of that Statutory Board; and
(b) if a reporting Statutory Board comprises more than one legal entity, debt instruments or equity instruments issued by one of those legal entities and held by another of those legal entities are not economic resources of the reporting Statutory Board.

4.13 In principle, each of a Statutory Board's rights is a separate asset. However, for accounting purposes, related rights are often treated as a single unit of account that is a single asset (see paragraphs 4.48–4.55). For example, legal ownership of a physical object may give rise to several rights, including:

(a) the right to use the object;
(b) the right to sell rights over the object;
(c) the right to pledge rights over the object; and
(d) other rights not listed in (a)-(c).

4.14 In many cases, the set of rights arising from legal ownership of a physical object is accounted for as a single asset. Conceptually, the resource is the set of rights, not the physical object. Nevertheless, describing the set of rights as the physical object will often provide a faithful representation of those rights in the most concise and understandable way.

4.15 In some cases, it is uncertain whether a right exists. For example, a Statutory Board-and another party might dispute whether the Statutory Board has a right to receive a resource from that other party. Until that existence uncertainty is resolved—for example, by a court ruling—it is uncertain whether the Statutory Board has a right and, consequently, whether an asset exists. (Paragraph 5.14 discusses recognition of assets whose existence is uncertain.).

Service potential or potential to generate economic benefits

4.16 A resource is a right that has service potential or the potential to generate economic benefits. For that potential to exist, it does not need to be certain, or even likely, that the right will produce benefits. It is only necessary that the right already exists and that, in at least one circumstance, it has service potential or would produce for the Statutory Board economic benefits beyond those available to all other parties.

4.17 A right can meet the definition of a resource, and hence can be an asset, even if the probability that it will generate benefits is low. Nevertheless, that low probability might affect decisions about what information to provide about the asset and how to provide that information, including decisions about whether the asset is recognised (see paragraphs 5.15–5.17) and how it is measured.

4.18 A resource could generate economic benefits for a Statutory Board by entitling or enabling it to do, for example, one or more of the following:

(a) receive contractual cash flows or another resource;
(b) exchange resources with another party on favourable terms;
(c) produce cash inflows or avoid cash outflows by, for example:
    (i) using the resource either individually or in combination with other resources to provide goods or services;
    (ii) using the resource to enhance the value of other resources; or
    (iii) leasing the resource to another party;
(d) receive cash or other resources by selling the resource; or

(e) extinguish liabilities by transferring the resource.

4.19 Although a resource derives its value from its present potential to generate future economic benefits, the resource is the present right that contains that potential, not the future economic benefits that the right may generate. For example, a purchased option derives its value from its potential to generate economic benefits through exercise of the option at a future date. However, the resource is the present right—the right to exercise the option at a future date. The resource is not the future economic benefits that the holder will receive if the option is exercised.

4.20 There is a close association between incurring expenditure and acquiring assets, but the two do not necessarily coincide. Hence, when a Statutory Board incurs expenditure, this may provide evidence that the Statutory Board has sought future benefits, but does not provide conclusive proof that the Statutory Board has obtained an asset. Similarly, the absence of related expenditure does not preclude an item from meeting the definition of an asset. Assets can include, for example, rights that a government has granted to the Statutory Board free of charge or that another party has donated to the Statutory Board.

4.21 Public sector assets that embody service potential may include recreational, heritage, community and other assets which are held by Statutory Boards, and which are used to provide services to third parties. Such services may be for collective or individual consumption. Many services may be provided in areas where there is no market competition or limited market competition. The use and disposal of such assets may be restricted as many assets that embody service potential are specialised in nature.

Control

4.22 Control links a resource to a Statutory Board. Assessing whether control exists helps to identify the resource for which the Statutory Board accounts. For example, a Statutory Board may control a proportionate share in a property without controlling the rights arising from ownership of the entire property. In such cases, the Statutory Board's asset is the share in the property, which it controls, not the rights arising from ownership of the entire property, which it does not control.

4.23 A Statutory Board controls a resource if it has the present ability to direct the use of the resource and obtain the benefits that may flow from it. Control includes the present ability to prevent other parties from directing the use of the resource and from obtaining the benefits that may flow from it. It follows that, if one party controls a resource, no other party controls that resource.

4.24 A Statutory Board has the present ability to direct the use of a resource if it has the right to deploy that resource in its activities, or to allow another party to deploy the resource in that other party's activities.

4.25 Control of a resource usually arises from an ability to enforce legal rights. However, control can also arise if a Statutory Board has other means of ensuring that it, and no other party, has the present ability to direct the use of the resource and obtain the benefits that may flow from it. For example, a Statutory Board could control a right to use know-how that is not in the public domain if the Statutory Board has access to the know-how and the present ability to keep the know-how secret, even if that know-how is not protected by a registered patent.

4.26 For a Statutory Board to control a resource, the future benefits (including the use of the resource to deliver goods or services) from that resource must flow to the Statutory Board either directly or indirectly rather than to another party. This aspect of control does not imply that the Statutory

Board can ensure that the resource will generate benefits in all circumstances. Instead, it means that if the resource generates benefits, the Statutory Board is the party that will obtain them either directly or indirectly.

4.27 Having exposure to significant variations in the amount of the benefits produced by an economic resource may indicate that the Statutory Board controls the resource. However, it is only one factor to consider in the overall assessment of whether control exists.

4.28 Sometimes one party (a principal) engages another party (an agent) to act on behalf of, and for the benefit of, the principal. For example, a principal may engage an agent to provide goods or services controlled by the principal. If an agent has custody of a resource controlled by the principal, that resource is not an asset of the agent. Furthermore, if the agent has an obligation to transfer to a third party a resource controlled by the principal, that obligation is not a liability of the agent, because the resource that would be transferred is the principal's resource, not the agent's.

Definition of a liability

4.29 A liability is a present obligation of the Statutory Board to transfer a resource as a result of past events.

4.30 For a liability to exist, three criteria must all be satisfied:

(a) the Statutory Board has an obligation (see paragraphs 4.31–4.38);
(b) the obligation is to transfer a resource (see paragraphs 4.39–4.44); and
(c) the obligation is a present obligation that exists as a result of past events (see paragraphs 4.45–4.50).

Obligation

4.31 The first criterion for a liability is that the Statutory Board has an obligation.

4.32 An obligation is a duty or responsibility that a Statutory Board has no practical ability to avoid. An obligation is always owed to another party (or parties). The other party (or parties) could be a person or another Statutory Board, a group of people or other Statutory Boards, or society at large. It is not necessary to know the identity of the party (or parties) to whom the obligation is owed.

4.33 If one party has an obligation to transfer a resource, it follows that another party (or parties) has a right to receive that resource. However, a requirement for one party to recognise a liability and measure it at a specified amount does not imply that the other party (or parties) must recognise an asset or measure it at the same amount. For example, particular Standards may contain different recognition criteria or measurement requirements for the liability of one party and the corresponding asset of the other party (or parties) if those different criteria or requirements are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent.

4.34 Many obligations are established by contract, legislation or similar means and are legally enforceable by the party (or parties) to whom they are owed. Obligations can also arise, however, from a Statutory Board's customary practices, published policies or specific statements if the Statutory Board has no practical ability to act in a manner inconsistent with those practices, policies or statements. The obligation that arises in such situations is sometimes referred to as a 'constructive obligation'.

4.35 In some situations, a Statutory Board's duty or responsibility to transfer a resource is conditional on a particular future action that the Statutory Board itself may take. Such actions could include providing a particular good or service on a specified future date, or exercising particular options within a contract. In such situations, the Statutory Board has an obligation if it has no practical ability to avoid taking that action.

4.36 A conclusion that it is appropriate to prepare a Statutory Board's financial statements on a going concern basis also implies a conclusion that the Statutory Board has no practical ability to avoid a transfer that could be avoided only by the Statutory Board ceasing to operate.

4.37 The factors used to assess whether a Statutory Board has the practical ability to avoid transferring a resource may depend on the nature of the Statutory Board's duty or responsibility. For example, in some cases, a Statutory Board-may have no practical ability to avoid the transfer if any action that it could take to avoid the transfer would have consequences significantly more adverse than the transfer itself. However, neither an intention to make a transfer, nor a high likelihood of a transfer, is sufficient reason for concluding that the Statutory Board has no practical ability to avoid a transfer.

4.38 In some cases, it is uncertain whether an obligation exists. For example, if another party is seeking compensation for a Statutory Board's alleged act of wrongdoing, it might be uncertain whether the act occurred, whether the Statutory Board committed it or how the law applies. Until that existence uncertainty is resolved—for example, by a court ruling—it is uncertain whether the Statutory Board has an obligation to the party seeking compensation and, consequently, whether a liability exists. (Paragraph 5.14 discusses recognition of liabilities whose existence is uncertain.)

Transfer of a resource

4.39 The second criterion for a liability is that the obligation is to transfer a resource.

4.40 To satisfy this criterion, the obligation must have the potential to require the Statutory Board to transfer a resource to another party (or parties). For that potential to exist, it does not need to be certain, or even likely, that the Statutory Board will be required to transfer a resource—the transfer may, for example, be required only if a specified uncertain future event occurs. It is only necessary that the obligation already exists and that, in at least one circumstance, it would require the Statutory Board to transfer a resource.

4.41 An obligation can meet the definition of a liability even if the probability of a transfer of resource is low. Nevertheless, that low probability might affect decisions about what information to provide about the liability and how to provide that information, including decisions about whether the liability is recognised (see paragraphs 5.15–5.17) and how it is measured.

4.42 Obligations to transfer a resource include, for example:

(a) obligations to pay cash.
(b) obligations to deliver goods or provide services.
(c) obligations to exchange resources with another party on unfavourable terms. Such obligations include, for example, a forward contract to sell a resource on terms that are currently

unfavourable or an option that entitles another party to buy a resource from the Statutory Board.

(d) obligations to transfer a resource if a specified uncertain future event occurs.

(e) obligations to issue a financial instrument if that financial instrument will oblige the Statutory Board to transfer a resource.

4.43 Instead of fulfilling an obligation to transfer a resource to the party that has a right to receive that resource, Statutory Boards sometimes decide to, for example:

(a) settle the obligation by negotiating a release from the obligation;
(b) transfer the obligation to a third party; or
(c) replace that obligation with another obligation by entering into a new transaction.

4.44 In the situations described in paragraph 4.43, a Statutory Board has the obligation to transfer a resource until it has settled, transferred or replaced that obligation.

Present obligation as a result of past events

4.45 The third criterion for a liability is that the obligation is a present obligation that exists as a result of past events.

4.46 A present obligation exists as a result of past events only if:

(a) the Statutory Board has already obtained benefits or taken an action; and
(b) as a consequence, the Statutory Board will or may have to transfer a resource that it would not otherwise have had to transfer.

4.47 The benefits obtained could include, for example, goods or services. The action taken could include, for example, providing a particular good or service. If benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulate over that time.

4.48 If new legislation is enacted, a present obligation arises only when, as a consequence of obtaining benefits or taking an action to which that legislation applies, a Statutory Board will or may have to transfer a resource that it would not otherwise have had to transfer. The enactment of legislation is not in itself sufficient to give a Statutory Board a present obligation. Similarly, a Statutory Board's customary practice, published policy or specific statement of the type mentioned in paragraph 4.31 gives rise to a present obligation only when, as a consequence of obtaining benefits, or taking an action, to which that practice, policy or statement applies, the Statutory Board will or may have to transfer a resource that it would not otherwise have had to transfer.

4.49 A present obligation can exist even if a transfer of resource cannot be enforced until some point in the future. For example, a contractual liability to pay cash may exist now even if the contract does not require a payment until a future date. Similarly, a contractual obligation for a Statutory Board to perform work at a future date may exist now even if the counterparty cannot require the Statutory Board to perform the work until that future date.

4.50 A Statutory Board does not yet have a present obligation to transfer a resource if it has not yet satisfied the criteria in paragraph 4.43, that is, if it has not yet obtained benefits, or taken an action, that would or could require the Statutory Board to transfer a resource that it would not otherwise have had to transfer. For example, if a Statutory Board has entered into a contract to pay an employee a salary in exchange for receiving the employee's services, the Statutory Board does not have a present obligation to pay the salary until it has received the employee's services. Before then the contract is executory—the Statutory Board has a combined right and obligation to exchange future salary for future employee services (see paragraphs 4.56–4.58).

Assets and liabilities

Unit of account

4.51 The unit of account is the right or the group of rights, the obligation or the group of obligations, or the group of rights and obligations, to which recognition criteria and measurement concepts are applied.

4.52 A unit of account is selected for an asset or liability when considering how recognition criteria and measurement concepts will apply to that asset or liability and to the related income and expenses. In some circumstances, it may be appropriate to select one unit of account for recognition and a different unit of account for measurement. For example, contracts may sometimes be recognised individually but measured as part of a portfolio of contracts. For presentation and disclosure, assets, liabilities, income and expenses may need to be aggregated or separated into components.

4.53 If a Statutory Board transfers part of an asset or part of a liability, the unit of account may change at that time, so that the transferred component and the retained component become separate units of account (see paragraphs 5.26–5.33).

4.54 A unit of account is selected to provide useful information, which implies that:

(a) the information provided about the asset or liability and about any related income and expenses must be relevant. Treating a group of rights and obligations as a single unit of account may provide more relevant information than treating each right or obligation as a separate unit of account if, for example, those rights and obligations:
   (i) cannot be or are unlikely to be the subject of separate transactions;
   (ii) cannot or are unlikely to expire in different patterns;
   (iii) have similar economic characteristics and risks and hence are likely to have similar implications for the prospects for future net cash inflows to the Statutory Board or net cash outflows from the Statutory Board; or
   (iv) are used together in the activities conducted by a Statutory Board to produce cash flows and are measured by reference to estimates of their interdependent future cash flows.
   (v) the information provided about the asset or liability and about any related income and expenses must faithfully represent the substance of the transaction or other event from which they have arisen. Therefore, it may be necessary to treat rights or obligations arising from different sources as a single unit of account, or to separate the rights or obligations arising from a single source (see paragraph 4.62). Equally, to provide a faithful representation of unrelated rights and obligations, it may be necessary to recognise and measure them separately.

4.55 Just as cost constrains other financial reporting decisions, it also constrains the selection of a unit of account. Hence, in selecting a unit of account, it is important to consider whether the benefits of the information provided to users of financial statements by selecting that unit of account are likely to justify the costs of providing and using that information. In general, the costs associated with recognising and measuring assets, liabilities, income and expenses increase as the size of the unit of account decreases. Hence, in general, rights or obligations arising from the same source are separated only if the resulting information is more useful and the benefits outweigh the costs.

4.56 Sometimes, both rights and obligations arise from the same source. For example, some contracts establish both rights and obligations for each of the parties. If those rights and obligations are interdependent and cannot be separated, they constitute a single inseparable asset or liability and hence form a single unit of account. For example, this is the case with executory contracts (see paragraph 4.57). Conversely, if rights are separable from obligations, it may sometimes be appropriate to group the rights separately from the obligations, resulting in the identification of one or more separate assets and liabilities. In other cases, it may be more appropriate to group separable rights and obligations in a single unit of account treating them as a single asset or a single liability.

4.57 Treating a set of rights and obligations as a single unit of account differs from offsetting assets and liabilities (see paragraph 7.10).

4.58 Possible units of account include:

(a) an individual right or individual obligation;
(b) all rights, all obligations, or all rights and all obligations, arising from a single source, for example, a contract;
(c) a subgroup of those rights and/or obligations—for example, a subgroup of rights over an item of property, plant and equipment for which the useful life and pattern of consumption differ from those of the other rights over that item;
(d) a group of rights and/or obligations arising from a portfolio of similar items;
(e) a group of rights and/or obligations arising from a portfolio of dissimilar items—for example, a portfolio of assets and liabilities to be disposed of in a single transaction; and
(f) a risk exposure within a portfolio of items—if a portfolio of items is subject to a common risk, some aspects of the accounting for that portfolio could focus on the aggregate exposure to that risk within the portfolio.

Executory contracts

4.59 An executory contract is a contract, or a portion of a contract, that is equally unperformed—neither party has fulfilled any of its obligations, or both parties have partially fulfilled their obligations to an equal extent.

4.60 An executory contract establishes a combined right and obligation to exchange economic resources. The right and obligation are interdependent and cannot be separated. Hence, the combined right and obligation constitute a single asset or liability. The Statutory Board has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable. Whether such an asset or liability is included in the financial statements depends on both the recognition criteria (see Chapter 5) and the measurement basis (see Chapter 6) selected for the asset or liability, including, if applicable, any test for whether the contract is onerous.

4.61 To the extent that either party fulfils its obligations under the contract, the contract is no longer executory. If the reporting Statutory Board performs first under the contract, that performance is the event that changes the reporting Statutory Board's right and obligation to exchange resources into a right to receive a resource. That right is an asset. If the other party performs first, that performance is the event that changes the reporting Statutory Board's right and obligation to exchange resources into an obligation to transfer a resource. That obligation is a liability.

Substance of contractual rights and contractual obligations

4.62 The terms of a contract create rights and obligations for a Statutory Board that is a party to that contract. To represent those rights and obligations faithfully, financial statements report their substance (see paragraph 2.12). In some cases, the substance of the rights and obligations is clear from the legal form of the contract. In other cases, the terms of the contract or a group or series of contracts require analysis to identify the substance of the rights and obligations.

4.63 All terms in a contract—whether explicit or implicit—are considered unless they have no substance.

4.64 Terms that have no substance are disregarded. A term has no substance if it has no discernible effect on the economics of the contract. Terms that have no substance could include, for example:

(a) terms that bind neither party; or
(b) rights, including options, that the holder will not have the practical ability to exercise in any circumstances.

4.65 A group or series of contracts may achieve or be designed to achieve an overall commercial effect. To report the substance of such contracts, it may be necessary to treat rights and obligations arising from that group or series of contracts as a single unit of account. For example, if the rights or obligations in one contract merely nullify all the rights or obligations in another contract entered into at the same time with the same counterparty, the combined effect is that the two contracts create no rights or obligations. Conversely, if a single contract creates two or more sets of rights or obligations that could have been created through two or more separate contracts, a Statutory Board may need to account for each set as if it arose from separate contracts in order to faithfully represent the rights and obligations (see paragraphs 4.51–4.58).

Definition of equity

4.66 Equity is the residual interest in the assets of the Statutory Board after deducting all its liabilities.

4.67 Equity claims are claims on the residual interest in the assets of the Statutory Board after deducting all its liabilities. In other words, they are claims against the Statutory Board that do not meet the definition of a liability. Such claims may be established by contract, legislation or similar means, and include the shares issued by the Statutory Board to the Government.

4.68 Sometimes, legal, regulatory or other requirements affect particular components of equity, such as share capital or accumulated surplus. For example, a Statutory Board is required to make dividend distributions to the Government in return for equity injections.

4.69 The legal and regulatory frameworks for Statutory Boards are often different from frameworks that apply to corporate entities. For example, the restrictions on the distribution to equity providers of Statutory Boards (the Government) may be different. Nevertheless, the definition of equity in paragraph 4.66 of the *SB-FRS Conceptual Framework* applies to all reporting Statutory Boards.

Definition of income and expenses

4.70 Income is increases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to contributions from equity providers.

4.71 Expenses are decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to equity providers.

4.72 It follows from these definitions of income and expenses that contributions from equity providers are not income, and distributions to equity providers are not expenses.

4.73 Income and expenses are the elements of financial statements that relate to a Statutory Board's financial performance. Users of financial statements need information about both a Statutory Board's financial position and its financial performance. Hence, although income and expenses are defined in terms of changes in assets and liabilities, information about income and expenses is just as important as information about assets and liabilities.

4.74 Different transactions and other events generate income and expenses with different characteristics. Providing information separately about income and expenses with different characteristics can help users of financial statements to understand the Statutory Board's financial performance (see paragraphs 7.14–7.19).

from paragraph

CHAPTER 5— RECOGNITION AND DERECOGNITION

The recognition process

5.1 Recognition is the process of capturing for inclusion in the statement of financial position or the statement(s) of financial performance an item that meets the definition of one of the elements of financial statements—an asset, a liability, equity, income or expenses. Recognition involves depicting the item in one of those statements—either alone or in aggregation with other items—in words and by a monetary amount, and including that amount in one or more totals in that statement. The amount at which an asset, a liability or equity is recognised in the statement of financial position is referred to as its 'carrying amount'.

5.2 The statement of financial position and statement(s) of financial performance depict a Statutory Board's recognised assets, liabilities, equity, income and expenses in structured summaries that are designed to make financial information comparable and understandable. An important feature of the structures of those summaries is that the amounts recognised in a statement are included in the totals and, if applicable, subtotals that link the items recognised in the statement.

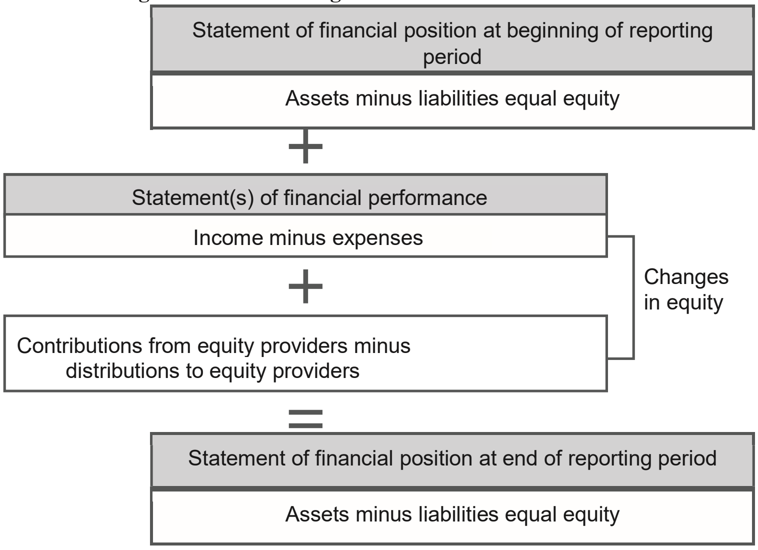
5.3 Recognition links the elements, the statement of financial position and the statement(s) of financial performance as follows (see Diagram 5.1):

(a) in the statement of financial position at the beginning and end of the reporting period, total assets minus total liabilities equal total equity; and
(b) recognised changes in equity during the reporting period comprise:
(c) income minus expenses recognised in the statement(s) of financial performance; plus contributions from equity providers, minus distributions to equity providers.

5.4 The statements are linked because the recognition of one item (or a change in its carrying amount) requires the recognition or derecognition of one or more other items (or changes in the carrying amount of one or more other items). For example:

(a) the recognition of income occurs at the same time as:
  (i) the initial recognition of an asset, or an increase in the carrying amount of an asset; or
  (ii) the derecognition of a liability, or a decrease in the carrying amount of a liability.
(b) the recognition of expenses occurs at the same time as:
  (i) the initial recognition of a liability, or an increase in the carrying amount of a liability; or
  (ii) the derecognition of an asset, or a decrease in the carrying amount of an asset.

Diagram 5.1: How recognition links the elements of financial statements



5.5 The initial recognition of assets or liabilities arising from transactions or other events may result in the simultaneous recognition of both income and related expenses. For example, the provision or transfer of goods or services for cash results in the recognition of both income (from the recognition of one asset—the cash) and an expense (from the derecognition of another asset—using up an asset from providing the goods or services). The simultaneous recognition of income and related expenses is sometimes referred to as the matching of costs with income. Application of the concepts in the *SB-FRS Conceptual Framework* leads to such matching when it arises from the recognition of changes in assets and liabilities. However, matching of costs with income is not an objective of the *SB-FRS Conceptual Framework*. The *SB-FRS Conceptual Framework* does not allow the recognition in the statement of financial position of items that do not meet the definition of an asset, a liability or equity.

Recognition criteria

5.6 Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses are recognised in the statement(s) of financial performance. However, not all items that meet the definition of one of those elements are recognised.

5.7 Not recognising an item that meets the definition of one of the elements makes the statement of financial position and the statement(s) of financial performance less complete and can exclude useful information from financial statements. On the other hand, in some circumstances, recognising some items that meet the definition of one of the elements would not provide useful information. An asset or liability is recognised only if recognition of that asset or liability and of any resulting income, expenses or changes in equity provides users of financial statements with information that is useful, i.e. with:

(a) relevant information about the asset or liability and about any resulting income, expenses or changes in equity (see paragraphs 5.12–5.17); and

(b) a faithful representation of the asset or liability and of any resulting income, expenses or changes in equity (see paragraphs 5.18–5.25).

5.8 Just as cost constrains other financial reporting decisions, it also constrains recognition decisions. There is a cost to recognising an asset or liability. Preparers of financial statements incur costs in obtaining a relevant measure of an asset or liability. Users of financial statements also incur costs in analysing and interpreting the information provided. An asset or liability is recognised if the benefits of the information provided to users of financial statements by recognition are likely to justify the costs of providing and using that information. In some cases, the costs of recognition may outweigh its benefits.

5.9 It is not possible to define precisely when recognition of an asset or liability will provide useful information to users of financial statements, at a cost that does not outweigh its benefits. What is useful to users depends on the item and the facts and circumstances. Consequently, judgement is required when deciding whether to recognise an item, and thus recognition requirements may need to vary between and within Standards.

5.10 It is important when making decisions about recognition to consider the information that would be given if an asset or liability were not recognised. For example, if no asset is recognised when expenditure is incurred, an expense is recognised. Over time, recognising the expense may, in some cases, provide useful information, for example, information that enables users of financial statements to identify trends.

5.11 Even if an item meeting the definition of an asset or liability is not recognised, a Statutory Board may need to provide information about that item in the notes. It is important to consider how to make such information sufficiently visible to compensate for the item's absence from the structured summary provided by the statement of financial position and, if applicable, the statement(s) of financial performance.

Relevance

5.12 Information about assets, liabilities, equity, income and expenses is relevant to users of financial statements. However, recognition of a particular asset or liability and any resulting income, expenses or changes in equity may not always provide relevant information. That may be the case if, for example:

(a) it is uncertain whether an asset or liability exists (see paragraph 5.14); or
(b) an asset or liability exists, but the probability of an inflow or outflow of benefits is low (see paragraphs 5.15–5.17).

5.13 The presence of one or both of the factors described in paragraph 5.12 does not lead automatically to a conclusion that the information provided by recognition lacks relevance. Moreover, factors other than those described in paragraph 5.12 may also affect the conclusion. It may be a combination of factors and not any single factor that determines whether recognition provides relevant information.

Existence uncertainty

5.14 Paragraphs 4.15 and 4.38 discuss cases in which it is uncertain whether an asset or liability exists. In some cases, that uncertainty, possibly combined with a low probability of inflows or outflows of benefits and an exceptionally wide range of possible outcomes, may mean that the recognition of an asset or liability, necessarily measured at a single amount, would not provide relevant information. Whether or not the asset or liability is recognised, explanatory information about the uncertainties associated with it may need to be provided in the financial statements.

Low probability of an inflow or outflow of benefits

5.15 An asset or liability can exist even if the probability of an inflow or outflow of benefits is low (see paragraphs 4.17 and 4.41).

5.16 If the probability of an inflow or outflow of benefits is low, the most relevant information about the asset or liability may be information about the magnitude of the possible inflows or outflows, their possible timing and the factors affecting the probability of their occurrence. The typical location for such information is in the notes.

5.17 Even if the probability of an inflow or outflow of benefits is low, recognition of the asset or liability may provide relevant information beyond the information described in paragraph 5.16. Whether that is the case may depend on a variety of factors. For example:

(a) if an asset is acquired or a liability is incurred in an exchange transaction on market terms, its cost generally reflects the probability of an inflow or outflow of benefits. Thus, that cost may be relevant information, and is generally readily available. Furthermore, not recognising the asset or liability would result in the recognition of expenses or income at the time of the exchange, which might not be a faithful representation of the transaction (see paragraph 5.25(a)).

(b) if an asset or liability arises from an event that is not an exchange transaction, recognition of the asset or liability typically results in recognition of income or expenses. If there is only a low probability that the asset or liability will result in an inflow or outflow of benefits, users of financial statements might not regard the recognition of the asset and income, or the liability and expenses, as providing relevant information.

Faithful representation

5.18 Recognition of a particular asset or liability is appropriate if it provides not only relevant information, but also a faithful representation of that asset or liability and of any resulting income, expenses or changes in equity. Whether a faithful representation can be provided may be affected by the level of measurement uncertainty associated with the asset or liability or by other factors.

Measurement uncertainty

5.19 For an asset or liability to be recognised, it must be measured. In many cases, such measures must be estimated and are therefore subject to measurement uncertainty. As noted in paragraph 2.19, the use of reasonable estimates is an essential part of the preparation of financial information and does not undermine the usefulness of the information if the estimates are clearly and accurately described and explained. Even a high level of measurement uncertainty does not necessarily prevent such an estimate from providing useful information.

5.20 In some cases, the level of uncertainty involved in estimating a measure of an asset or liability may be so high that it may be questionable whether the estimate would provide a sufficiently faithful representation of that asset or liability and of any resulting income, expenses or changes in equity. The level of measurement uncertainty may be so high if, for example, the only way of estimating that measure of the asset or liability is by using cash-flow-based measurement techniques and, in addition, one or more of the following circumstances exists:

(a) the range of possible outcomes is exceptionally wide and the probability of each outcome is exceptionally difficult to estimate.
(b) the measure is exceptionally sensitive to small changes in estimates of the probability of different outcomes—for example, if the probability of future cash inflows or outflows occurring is exceptionally low, but the magnitude of those cash inflows or outflows will be exceptionally high if they occur.
(c) measuring the asset or liability requires exceptionally difficult or exceptionally subjective allocations of cash flows that do not relate solely to the asset or liability being measured.

5.21 In some of the cases described in paragraph 5.20, the most useful information may be the measure that relies on the highly uncertain estimate, accompanied by a description of the estimate and an explanation of the uncertainties that affect it. This is especially likely to be the case if that measure is the most relevant measure of the asset or liability. In other cases, if that information would not provide a sufficiently faithful representation of the asset or liability and of any resulting income, expenses or changes in equity, the most useful information may be a different measure (accompanied by any necessary descriptions and explanations) that is slightly less relevant but is subject to lower measurement uncertainty.

5.22 In limited circumstances, all relevant measures of an asset or liability that are available (or can be obtained) may be subject to such high measurement uncertainty that none would provide useful information about the asset or liability (and any resulting income, expenses or changes in equity), even if the measure were accompanied by a description of the estimates made in producing it and an explanation of the uncertainties that affect those estimates. In those limited circumstances, the asset or liability would not be recognised.

5.23 Whether or not an asset or liability is recognised, a faithful representation of the asset or liability may need to include explanatory information about the uncertainties associated with the asset or liability's existence or measurement, or with its outcome—the amount or timing of any inflow or outflow of benefits that will ultimately result from it (see paragraphs 6.60–6.62).

Other factors

5.24 Faithful representation of a recognised asset, liability, equity, income or expenses involves not only recognition of that item, but also its measurement as well as presentation and disclosure of information about it (see Chapters 6–7).

5.25 Hence, when assessing whether the recognition of an asset or liability can provide a faithful representation of the asset or liability, it is necessary to consider not merely its description and measurement in the statement of financial position, but also:

(a) the depiction of resulting income, expenses and changes in equity. For example, if a Statutory Board acquires an asset in exchange for consideration, not recognising the asset would result in recognising expenses and would reduce the Statutory Board's surplus and equity. In some cases, for example, if the Statutory Board does not consume the asset immediately, that result could provide a misleading representation that the Statutory Board's financial position has deteriorated.
(b) whether related assets and liabilities are recognised. If they are not recognised, recognition may create a recognition inconsistency (accounting mismatch). That may not provide an understandable or faithful representation of the overall effect of the transaction or other event giving rise to the asset or liability, even if explanatory information is provided in the notes.

(c) presentation and disclosure of information about the asset or liability, and resulting income, expenses or changes in equity. A complete depiction includes all information necessary for a user of financial statements to understand the economic phenomenon depicted, including all necessary descriptions and explanations. Hence, presentation and disclosure of related information can enable a recognised amount to form part of a faithful representation of an asset, a liability, equity, income or expenses.

Derecognition

5.26 Derecognition is the removal of all or part of a recognised asset or liability from a Statutory Board's statement of financial position. Derecognition normally occurs when that item no longer meets the definition of an asset or of a liability:

(a) for an asset, derecognition normally occurs when the Statutory Board loses control of all or part of the recognised asset; and
(b) for a liability, derecognition normally occurs when the Statutory Board no longer has a present obligation for all or part of the recognised liability.

5.27 Accounting requirements for derecognition aim to faithfully represent both:

(a) any assets and liabilities retained after the transaction or other event that led to the derecognition (including any asset or liability acquired, incurred or created as part of the transaction or other event); and
(b) the change in the Statutory Board's assets and liabilities as a result of that transaction or other event.

5.28 The aims described in paragraph 5.27 are normally achieved by:

(a) derecognising any assets or liabilities that have expired or have been consumed, collected, fulfilled or transferred, and recognising any resulting income and expenses. In the rest of this chapter, the term 'transferred component' refers to all those assets and liabilities;
(b) continuing to recognise the assets or liabilities retained, referred to as the 'retained component', if any. That retained component becomes a unit of account separate from the transferred component. Accordingly, no income or expenses are recognised on the retained component as a result of the derecognition of the transferred component, unless the derecognition results in a change in the measurement requirements applicable to the retained component; and
(c) applying one or more of the following procedures, if that is necessary to achieve one or both of the aims described in paragraph 5.27:

    (i) presenting any retained component separately in the statement of financial position;
    (ii) presenting separately in the statement(s) of financial performance any income and expenses recognised as a result of the derecognition of the transferred component; or
    (iii) providing explanatory information.

5.29 In some cases, a Statutory Board might appear to transfer an asset or liability, but that asset or liability might nevertheless remain an asset or liability of the Statutory Board. For example:

(a) if a Statutory Board has apparently transferred an asset but retains exposure to significant positive or negative variations in the amount of benefits that may be produced by the asset, this sometimes indicates that the Statutory Board might continue to control that asset (see paragraph 4.27); or

(b) if a Statutory Board has transferred an asset to another party that holds the asset as an agent for the Statutory Board, the transferor still controls the asset (see paragraph 4.28).

5.30 In the cases described in paragraph 5.29, derecognition of that asset or liability is not appropriate because it would not achieve either of the two aims described in paragraph 5.27.

5.31 When a Statutory Board no longer has a transferred component, derecognition of the transferred component faithfully represents that fact. However, in some of those cases, derecognition may not faithfully represent how much a transaction or other event changed the Statutory Board's assets or liabilities, even when supported by one or more of the procedures described in paragraph 5.28(c). In those cases, derecognition of the transferred component might imply that the Statutory Board's financial position has changed more significantly than it has. This might occur, for example:

(a) if a Statutory Board has transferred an asset and, at the same time, entered into another transaction that results in a present right or present obligation to reacquire the asset. Such present rights or present obligations may arise from, for example, a forward contract, a written put option, or a purchased call option.

(b) if a Statutory Board has retained exposure to significant positive or negative variations in the amount of benefits that may be produced by a transferred component that the Statutory Board no longer controls.

5.32 If derecognition is not sufficient to achieve both aims described in paragraph 5.27, even when supported by one or more of the procedures described in paragraph 5.28(c), those two aims might sometimes be achieved by continuing to recognise the transferred component. This has the following consequences:

(a) no income or expenses are recognised on either the retained component or the transferred component as a result of the transaction or other event;

(b) the proceeds received (or paid) upon transfer of the asset (or liability) are treated as a loan received (or given); and

(c) separate presentation of the transferred component in the statement of financial position, or provision of explanatory information, is needed to depict the fact that the Statutory Board no longer has any rights or obligations arising from the transferred component. Similarly, it may be necessary to provide information about income or expenses arising from the transferred component after the transfer.

5.33 One case in which questions about derecognition arise is when a contract is modified in a way that reduces or eliminates existing rights or obligations. In deciding how to account for contract modifications, it is necessary to consider which unit of account provides users of financial statements with the most useful information about the assets and liabilities retained after the modification, and about how the modification changed the Statutory Board's assets and liabilities:

(a) if a contract modification only eliminates existing rights or obligations, the discussion in paragraphs 5.26–5.32 is considered in deciding whether to derecognise those rights or obligations;

(b) if a contract modification only adds new rights or obligations, it is necessary to decide whether to treat the added rights or obligations as a separate asset or liability, or as part of the same unit of account as the existing rights and obligations (see paragraphs 4.51–4.58); and

(c) if a contract modification both eliminates existing rights or obligations and adds new rights or obligations, it is necessary to consider both the separate and the combined effect of those modifications. In some such cases, the contract has been modified to such an extent that, in substance, the modification replaces the old asset or liability with a new asset or liability. In cases of such extensive modification, the Statutory Board may need to derecognise the original asset or liability, and recognise the new asset or liability.

from paragraph

CHAPTER 6— MEASUREMENT

Introduction

6.1 Elements recognised in financial statements are quantified in monetary terms. This requires the selection of a measurement basis. A measurement basis is an identified feature—for example, historical cost, fair value or fulfilment value—of an item being measured. Applying a measurement basis to an asset or liability creates a measure for that asset or liability and for related income and expenses.

6.2 Consideration of the qualitative characteristics of useful financial information and of the cost constraint is likely to result in the selection of different measurement bases for different assets, liabilities, income and expenses.

6.3 A Standard may need to describe how to implement the measurement basis selected in that Standard. That description could include:

(a) specifying techniques that may or must be used to estimate a measure applying a particular measurement basis;
(b) specifying a simplified measurement approach that is likely to provide information similar to that provided by a preferred measurement basis; or
(c) explaining how to modify a measurement basis, for example, by excluding from the fulfilment value of a liability the effect of the possibility that the Statutory Board may fail to fulfil that liability (own credit risk).

Measurement bases

Historical cost

6.4 Historical cost measures provide monetary information about assets, liabilities and related income and expenses, using information derived, at least in part, from the price of the transaction or other event that gave rise to them. Unlike current value, historical cost does not reflect changes in values, except to the extent that those changes relate to impairment of an asset or a liability becoming onerous (see paragraphs 6.7(c) and 6.8(b)).

6.5 The historical cost of an asset when it is acquired or created is the value of the costs incurred in acquiring or creating the asset, comprising the consideration paid to acquire or create the asset plus transaction costs. The historical cost of a liability when it is incurred or taken on is the value of the consideration received to incur or take on the liability minus transaction costs.

6.6 When an asset is acquired or created, or a liability is incurred or taken on, as a result of an event that is not a transaction on market terms (see paragraph 6.80), it may not be possible to identify a cost, or the cost may not provide relevant information about the asset or liability. In some such cases, a current value of the asset or liability is used as a deemed cost on initial recognition and that deemed cost is then used as a starting point for subsequent measurement at historical cost.

6.7 The historical cost of an asset is updated over time to depict, if applicable:

(a) the consumption of part or all of the economic resource that constitutes the asset (depreciation or amortisation);
(b) payments received that extinguish part or all of the asset;

(c) the effect of events that cause part or all of the historical cost of the asset to be no longer recoverable (impairment); and
(d) accrual of interest to reflect any financing component of the asset.

6.8 The historical cost of a liability is updated over time to depict, if applicable:

(a) fulfilment of part or all of the liability, for example, by making payments that extinguish part or all of the liability or by satisfying an obligation to deliver goods or services;
(b) the effect of events that increase the value of the obligation to transfer the economic resources needed to fulfil the liability to such an extent that the liability becomes onerous. A liability is onerous if the historical cost is no longer sufficient to depict the obligation to fulfil the liability; and
(c) accrual of interest to reflect any financing component of the liability.

6.9 One way to apply a historical cost measurement basis to financial assets and financial liabilities is to measure them at amortised cost. The amortised cost of a financial asset or financial liability reflects estimates of future cash flows, discounted at a rate determined at initial recognition. For variable rate instruments, the discount rate is updated to reflect changes in the variable rate. The amortised cost of a financial asset or financial liability is updated over time to depict subsequent changes, such as the accrual of interest, the impairment of a financial asset and receipts or payments.

Current value

6.10 Current value measures provide monetary information about assets, liabilities and related income and expenses, using information updated to reflect conditions at the measurement date. Because of the updating, current values of assets and liabilities reflect changes, since the previous measurement date, in estimates of cash flows and other factors reflected in those current values (see paragraphs 6.14–6.15 and 6.20). Unlike historical cost, the current value of an asset or liability is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or liability.

6.11 Current value measurement bases include:

(a) fair value (see paragraphs 6.12–6.16);
(b) value in use for assets and fulfilment value for liabilities (see paragraphs 6.17–6.20); and
(c) current cost (see paragraphs 6.21–6.22).

Fair value

6.12 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.

6.13 Fair value reflects the perspective of market participants—participants in a market to which the Statutory Board has access. The asset or liability is measured using the same assumptions that market participants would use when pricing the asset or liability if those market participants act in their economic best interest.

6.14 In some cases, fair value can be determined directly by observing prices in an active market. In other cases, it is determined indirectly using measurement techniques, for example, cash-flow-based measurement techniques (see paragraphs 6.91–6.95), reflecting all the following factors:

(a) estimates of future cash flows.
(b) possible variations in the estimated amount or timing of future cash flows for the asset or 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 (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 (and generally require more for taking on a liability) that has uncertain cash flows than for an asset (or liability) whose cash flows are certain.
(e) other factors, for example, liquidity, if market participants would take those factors into account in the circumstances.

6.15 The factors mentioned in paragraphs 6.14(b) and 6.14(d) include the possibility that a counterparty may fail to fulfil its liability to the Statutory Board (credit risk), or that the Statutory Board may fail to fulfil its liability (own credit risk).

6.16 Because fair value is not derived, even in part, from the price of the transaction or other event that gave rise to the asset or liability, fair value is not increased by the transaction costs incurred when acquiring the asset and is not decreased by the transaction costs incurred when the liability is incurred or taken on. In addition, fair value does not reflect the transaction costs that would be incurred on the ultimate disposal of the asset or on transferring or settling the liability.

Value in use and fulfilment value

6.17 Value in use is the present value of the cash flows, or the remaining service potential, that a Statutory Board expects to derive from the use of an asset and from its ultimate disposal. Fulfilment value is the present value of the cash, or other resources, that a Statutory Board expects to be obliged to transfer as it fulfils a liability. Those amounts of cash or other resources include not only the amounts to be transferred to the liability counterparty, but also the amounts that the Statutory Board expects to be obliged to transfer to other parties to enable it to fulfil the liability.

6.18 Value in use and fulfilment value do not include transaction costs incurred on acquiring an asset or taking on a liability. However, value in use and fulfilment value include the present value of any transaction costs a Statutory Board expects to incur on the ultimate disposal of the asset or on fulfilling the liability.

6.19 Value in use and fulfilment value reflect Statutory Board-specific assumptions rather than assumptions by market participants. In practice, there may sometimes be little difference between the assumptions that market participants would use and those that a Statutory Board itself uses.

6.20 Value in use and fulfilment value cannot be observed directly. Value in use and fulfilment value reflect the same factors described for fair value in paragraph 6.14, but from a Statutory Board-specific perspective rather than from a market-participant perspective.

Current cost

6.21 The current cost of an asset is the cost of an equivalent asset at the measurement date, comprising the consideration that would be paid at the measurement date plus the transaction costs that would be incurred at that date. The current cost of a liability is the consideration that would be received for an equivalent liability at the measurement date minus the transaction costs that would be incurred at that date. Current cost, like historical cost, is an entry value: it reflects prices in the market in which the Statutory Board would acquire the asset or would incur the liability. Hence, it is different from fair value, value in use and fulfilment value, which are exit values. However, unlike historical cost, current cost reflects conditions at the measurement date.

6.22 In some cases, current cost cannot be determined directly by observing prices in an active market and must be determined indirectly by other means. For example, if prices are available only for new assets, the current cost of a used asset might need to be estimated by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the Statutory Board.

Information provided by particular measurement bases

6.23 When selecting a measurement basis, it is important to consider the nature of the information that the measurement basis will produce in both the statement of financial position and the statement(s) of financial performance. Table 6.1 summarises that information and paragraphs 6.24–6.42 provide additional discussion.

Historical cost

6.24 Information provided by measuring an asset or liability at historical cost may be relevant to users of financial statements, because historical cost uses information derived, at least in part, from the price of the transaction or other event that gave rise to the asset or liability.

6.25 Normally, if a Statutory Board acquired an asset in a recent transaction on market terms, the Statutory Board expects that the asset will provide sufficient benefits that the Statutory Board will at least recover the cost of the asset. Similarly, if a liability was incurred or taken on as a result of a recent transaction on market terms, the Statutory Board expects that the value of the obligation to transfer resources to fulfil the liability will normally be no more than the value of the consideration received minus transaction costs. Hence, measuring an asset or liability at historical cost in such cases provides relevant information about both the asset or liability and the price of the transaction that gave rise to that asset or liability.

6.26 Because historical cost is reduced to reflect consumption of an asset and its impairment, the amount expected to be recovered from an asset measured at historical cost is at least as great as its carrying amount. Similarly, because the historical cost of a liability is increased when it becomes onerous, the value of the obligation to transfer the resources needed to fulfil the liability is no more than the carrying amount of the liability.

6.27 If an asset other than a financial asset is measured at historical cost, consumption or sale of the asset, or of part of the asset, gives rise to an expense measured at the historical cost of the asset, or of part of the asset, consumed or sold.

6.28 The expense arising from the sale of an asset is recognised at the same time as the consideration for that sale is recognised as income. The difference between the income and the expense is the net surplus or deficit resulting from the sale.

6.29 Similarly, if a liability other than a financial liability was incurred or taken on in exchange for consideration and is measured at historical cost, the fulfilment of all or part of the liability gives rise to income measured at the value of the consideration received for the part fulfilled. The difference between that income and the expenses incurred in fulfilling the liability is the net surplus or deficit resulting from the fulfilment.

6.30 Information about the cost of assets sold or consumed, including goods and services consumed immediately (see paragraph 4.10), and about the consideration received, may have predictive value. That information can be used to assess the Statutory Board's prospects for future net cash inflows. Income and expenses measured at historical cost may also have confirmatory value because they may provide feedback to users of financial statements about their previous predictions of cash flows. Information about the cost of assets sold or consumed may also help in an assessment of how efficiently and effectively the Statutory Board's management has discharged its responsibilities to use the Statutory Board's resources.

6.31 For similar reasons, information about interest earned on assets, and interest incurred on liabilities, measured at amortised cost may have predictive and confirmatory value.

Current value

Fair value

6.32 Information provided by measuring assets and liabilities at fair value may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows. These expectations are priced in a manner that reflects the current risk preferences of market participants. That information may also have confirmatory value by providing feedback about previous expectations.

6.33 Income and expenses reflecting market participants' current expectations may have some predictive value, because such income and expenses can be used as an input in predicting future income and expenses. Such income and expenses may also help in an assessment of how efficiently and effectively the Statutory Board's management has discharged its responsibilities to use the Statutory Board's resources.

6.34 A change in the fair value of an asset or liability can result from various factors identified in paragraph 6.14. When those factors have different characteristics, identifying separately income and expenses that result from those factors can provide useful information to users of financial statements (see paragraph 7.14(b)).

6.35 If a Statutory Board acquired an asset in one market and determines fair value using prices in a different market (the market in which the Statutory Board would sell the asset), any difference between the prices in those two markets is recognised as income when that fair value is first determined.

6.36 Sale of an asset or transfer of a liability would normally be for consideration of an amount similar to its fair value, if the transaction were to occur in the market that was the source for the prices used when measuring that fair value. In those cases, if the asset or liability is measured at fair value, the net income or net expenses arising at the time of the sale or transfer would usually be small, unless the effect of transaction costs is significant.

Value in use and fulfilment value

6.37 Value in use provides information about the present value of the estimated cash flows, or the service potential, from the use of an asset and from its ultimate disposal. This information may have predictive value because it can be used in assessing the prospects for future net cash inflows.

6.38 Fulfilment value provides information about the present value of the estimated cash flows needed to fulfil a liability. Hence, fulfilment value may have predictive value, particularly if the liability will be fulfilled, rather than transferred or settled by negotiation.

6.39 Updated estimates of value in use or fulfilment value, combined with information about estimates of the amount, timing and uncertainty of future cash flows, may also have confirmatory value because they provide feedback about previous estimates of value in use or fulfilment value.

Current cost

6.40 Information about assets and liabilities measured at current cost may be relevant because current cost reflects the cost at which an equivalent asset could be acquired or created at the measurement date or the consideration that would be received for incurring or taking on an equivalent liability.

6.41 Like historical cost, current cost provides information about the cost of an asset consumed or about income from the fulfilment of liabilities. That information can be used to predict future cash flows. Unlike historical cost, current cost reflects prices prevailing at the time of consumption or fulfilment. When price changes are significant, current cost may be more useful for predicting future cash flows than historical cost.

6.42 To report the current cost of consumption (or current income from fulfilment), it is necessary to split the change in the carrying amount in the reporting period into the current cost of consumption (or current income from fulfilment), and the effect of changes in prices. The effect of a change in prices is sometimes referred to as a ‘holding gain’ or a ‘holding loss’.

Table 6.1—Summary of information provided by particular measurement bases

Assets

Statement of financial position				
	Historical cost	**Fair value (market-participant assumptions)**	**Value in use (Statutory Board-specific assumptions)**[a]	**Current cost**
Carrying amount	Historical cost (including transaction costs), to the extent unconsumed or uncollected, and recoverable. (Includes interest accrued on any financing component.)	Price that would be received to sell the asset (without deducting transaction costs on disposal).	Present value of future cash flows, or the remaining service potential, from the use of the asset and from its ultimate disposal (after deducting present value of transaction costs on disposal).	Current cost (including transaction costs), to the extent unconsumed or uncollected, and recoverable.
Statement(s) of financial performance				
Event	**Historical cost**	**Fair value (market-participant assumptions)**	**Value in use (Statutory Board-specific assumptions)**	**Current cost**
Initial recognition[b]	—	Difference between consideration paid and fair value of the asset acquired.[c] Transaction costs on acquiring the asset.	Difference between consideration paid and value in use of the asset acquired. Transaction costs on acquiring the asset.	—
Sale or consumption of the asset(d), (e)	Expenses equal to historical cost of the asset sold or consumed. Income received. (Could be presented gross or net.) Expenses for transaction costs on selling the asset.	Expenses equal to fair value of the asset sold or consumed. Income received. (Could be presented gross or net.) Expenses for transaction costs on selling the asset.	Expenses equal to value in use of the asset sold or consumed. Income received. (Could be presented gross or net.)	Expenses equal to current cost of the asset sold or consumed. Income received. (Could be presented gross or net.) Expenses for transaction costs on selling the asset.

Statement(s) of financial performance				
Event	**Historical cost**	**Fair value (market-participant assumptions)**	**Value in use (Statutory Board-specific assumptions)**	**Current cost**
Interest income	Interest income, at historical rates, updated if the asset bears variable interest.	Reflected in income and expenses from changes in fair value. (Could be identified separately.)	Reflected in income and expenses from changes in value in use. (Could be identified separately.)	Interest income, at current rates.
Impairment	Expenses arising because historical cost is no longer recoverable.	Reflected in income and expenses from changes in fair value. (Could be identified separately.)	Reflected in income and expenses from changes in value in use. (Could be identified separately.)	Expenses arising because current cost is no longer recoverable.
Value changes	Not recognised, except to reflect an impairment.	Reflected in income and expenses from changes in fair value. For financial assets – income and expenses from changes in estimated cashflows.	Reflected in income and expenses from changes in value in use.	Income and expenses reflecting the effect of changes in prices (holding gains and holding losses).

(a) This column summarises the information provided if value in use is used as a measurement basis. However, as noted in paragraph 6.75, value in use may not be a practical measurement basis for regular remeasurements.
(b) Income or expenses may arise on the initial recognition of an asset not acquired on market terms.
(c) Income or expenses may arise if the market in which an asset is acquired is different from the market that is the source of the prices used when measuring the fair value of the asset.
(d) Consumption of the asset is typically reported through cost of sales, depreciation or amortisation.
(e) Income received is often equal to the consideration received but will depend on the measurement basis used for any related liability.

Liabilities

Statement of financial position				
	Historical cost	**Fair value (market-participant assumptions)**	**Fulfilment value (Statutory Board-specific assumptions)**	**Current cost**
Carrying amount	Consideration received (net of transaction costs) for taking on the unfulfilled part of the liability, increased by excess of estimated cash outflows over consideration received. (Includes interest accrued on any financing component.)	Price that would be paid to transfer the unfulfilled part of the liability (not including transaction costs that would be incurred on transfer).	Present value of future cash flows that will arise in fulfilling the unfulfilled part of the liability (including present value of transaction costs to be incurred in fulfilment or transfer).	Consideration (net of transaction costs) that would be currently received for taking on the unfulfilled part of the liability, increased by excess of estimated cash outflows over that consideration.

Statement(s) of financial performance				
Event	**Historical cost**	**Fair value (market-participant assumptions)**	**Fulfilment value (Statutory Board-specific assumptions)**	**Current cost**
Initial recognition[(a)]	—	Difference between consideration received and the fair value of the liability.[(b)] Transaction costs on incurring or taking on the liability.	Difference between consideration received and the fulfilment value of the liability. Transaction costs on incurring or taking on the liability.	—
Fulfilment of the liability	Income equal to historical cost of the liability fulfilled (reflects historical consideration). Expenses for costs incurred in fulfilling the liability. (Could be presented net or gross.)	Income equal to fair value of the liability fulfilled. Expenses for costs incurred in fulfilling the liability. (Could be presented net or gross. If gross, historical consideration could be presented separately.)	Income equal to fulfilment value of the liability fulfilled. Expenses for costs incurred in fulfilling the liability. (Could be presented net or gross. If gross, historical consideration could be presented separately.)	Income equal to current cost of the liability fulfilled (reflects current consideration). Expenses for costs incurred in fulfilling the liability. (Could be presented net or gross. If gross, historical consideration could be presented separately.)

Statement(s) of financial performance				
Event	**Historical cost**	**Fair value (market-participant assumptions)**	**Fulfilment value (Statutory Board-specific assumptions)**	**Current cost**
Transfer of the liability	Income equal to historical cost of the liability transferred (reflects historical consideration).	Income equal to fair value of the liability transferred.	Income equal to fulfilment value of the liability transferred.	Income equal to current cost of the liability transferred (reflects current consideration).
	Expenses for costs paid (including transaction costs) to transfer the liability.	Expenses for costs paid (including transaction costs) to transfer the liability	Expenses for costs paid (including transaction costs) to transfer the liability.	Expenses for costs paid (including transaction costs) to transfer the liability.
	(Could be presented net or gross.)	(Could be presented net or gross.)	(Could be presented net or gross.)	(Could be presented net or gross.)
Interest expenses	Interest expenses, at historical rates, updated if the liability bears variable interest.	Reflected in income and expenses from changes in fair value.	Reflected in income and expenses from changes in fulfilment value.	Interest expenses, at current rates.
		(Could be identified separately.)	(Could be identified separately.)	
Effect of events that cause a liability to become onerous	Expenses equal to the excess of the estimated cash outflows over the historical cost of the liability, or a subsequent change in that excess.	Reflected in income and expenses from changes in fair value.	Reflected in income and expenses from changes in fulfilment value.	Expenses equal to the excess of the estimated cash outflows over the current cost of the liability, or a subsequent change in that excess
		(Could be identified separately.)	(Could be identified separately.)	
Value changes	Not recognised except to the extent that the liability is onerous. For financial liabilities—income and expenses from changes in estimated cash flows.	Reflected in income and expenses from changes in fair value.	Reflected in income and expenses from changes in fulfilment value.	Income and expenses reflecting the effect of changes in prices (holding gains and holding losses).

Factors to consider when selecting a measurement basis

6.43 In selecting a measurement basis for an asset or liability and for the related income and expenses, it is necessary to consider the nature of the information that the measurement basis will produce in both the statement of financial position and the statement(s) of financial performance (see paragraphs 6.23–6.42 and Table 6.1), as well as other factors (see paragraphs 6.44–6.86).

6.44 In most cases, no single factor will determine which measurement basis should be selected. The relative importance of each factor will depend on facts and circumstances.

6.45 The information provided by a measurement basis must be useful to users of financial statements. To achieve this, the information 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.

6.46 As explained in paragraph 2.21, the most efficient and effective process for applying the fundamental qualitative characteristics would usually be to identify the most relevant information about an economic phenomenon. If that information is not available or cannot be provided in a way that faithfully represents the economic phenomenon, the next most relevant type of information is considered. Paragraphs 6.49–6.76 provide further discussion of the role played by the qualitative characteristics in the selection of a measurement basis.

6.47 The discussion in paragraphs 6.49–6.76 focuses on the factors to be considered in selecting a measurement basis for recognised assets and recognised liabilities. Some of that discussion may also apply in selecting a measurement basis for information provided in the notes, for recognised or unrecognised items.

6.48 Paragraphs 6.77–6.82 discuss additional factors to consider in selecting a measurement basis on initial recognition. If the initial measurement basis is inconsistent with the subsequent measurement basis, income and expenses might be recognised at the time of the first subsequent measurement solely because of the change in measurement basis. Recognising such income and 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 liability, and for the related income and expenses, is determined by considering both initial measurement and subsequent measurement.

Relevance

6.49 The relevance of information provided by a measurement basis for an asset or liability and for the related income and expenses is affected by:

(a) the characteristics of the asset or liability (see paragraphs 6.50–6.53); and
(b) how that asset or liability contributes to future cash flows (see paragraphs 6.54–6.57).

Characteristics of the asset or liability

6.50 The relevance of information provided by a measurement basis depends partly on the characteristics of the asset or liability, in particular, on the variability of cash flows and on whether the value of the asset or liability is sensitive to market factors or other risks.

6.51 If the value of an asset or liability is sensitive to market factors or other risks, its historical cost might differ significantly from its current value. Consequently, historical cost may not provide relevant information if information about changes in value is important to users of financial statements. For example, amortised cost cannot provide relevant information about a financial asset or financial liability that is a derivative.

6.52 Furthermore, if historical cost is used, changes in value are reported not when that value changes, but when an event such as disposal, impairment or fulfilment occurs. This could be incorrectly interpreted as implying that all the income and expenses recognised at the time of that event arose then, rather than over the periods during which the asset or liability was held. Moreover, because measurement at historical cost does not provide timely information about changes in value, income and expenses reported on that basis may lack predictive value and confirmatory value by not depicting the full effect of the Statutory Board's exposure to risk arising from holding the asset or liability during the reporting period.

6.53 Changes in the fair value of an asset or liability reflect changes in expectations of market participants and changes in their risk preferences. Depending on the characteristics of the asset or liability being measured and on the nature of the Statutory Board's activities, information reflecting those changes may not always provide predictive value or confirmatory value to users of financial statements. This may be the case when the Statutory Board's activities do not involve selling the asset or transferring the liability, for example, if the Statutory Board holds assets solely for use or solely for collecting contractual cash flows or if the Statutory Board is to fulfil liabilities itself.

Contribution to future cash flows or service delivery

6.54 As noted in paragraph 1.20, some resources produce cash flows directly; in other cases, resources are used in combination to produce cash flows indirectly, or are used to deliver services so that the Statutory Board can fulfil its objectives. How resources are used, and hence how assets and liabilities produce cash flows or contribute to service delivery, depends in part on the nature of the activities of the Statutory Board.

6.55 When an activity of a Statutory Board involves the use of several resources that produce cash flows indirectly, by being used in combination to produce goods or services to customers, historical cost or current cost is likely to provide relevant information about that activity. For example, property, plant and equipment is typically used in combination with a Statutory Board's other resources. Similarly, inventory typically cannot be sold to a customer, except by making extensive use of the Statutory Board's other resources. Paragraphs 6.24–6.31 and 6.40–6.42 explain how measuring such assets at historical cost or current cost can provide relevant information.

6.56 For assets and liabilities that produce cash flows directly, such as assets that can be sold independently and without a significant economic penalty (for example, without significant operational disruption), the measurement basis that provides the most relevant information is likely to be a current value that incorporates current estimates of the amount, timing and uncertainty of the future cash flows.

6.57 When an activity of a Statutory Board involves managing financial assets and financial liabilities with the objective of collecting contractual cash flows, amortised cost may provide relevant information. However, in assessing whether amortised cost will provide useful information, it is also necessary to consider the characteristics of the financial asset or financial liability. Amortised cost is unlikely to provide relevant information about cash flows that depend on factors other than principal and interest.

Faithful representation

6.58 When assets and liabilities are related in some way, using different measurement bases for those assets and liabilities can create a measurement inconsistency (accounting mismatch). If financial statements contain measurement inconsistencies, those financial statements may not faithfully represent some aspects of the Statutory Board's financial position and financial performance. Consequently, in some circumstances, using the same measurement basis for related assets and liabilities may provide users of financial statements with information that is more useful than the information that would result from using different measurement bases. This may be particularly likely when the cash flows from one asset or liability are directly linked to the cash flows from another asset or liability.

6.59 As noted in paragraphs 2.13 and 2.18, although a perfectly faithful representation is free from error, this does not mean that measures must be perfectly accurate in all respects.

6.60 When a measure cannot be determined directly by observing prices in an active market and must instead be estimated, measurement uncertainty arises. The level of measurement uncertainty associated with a particular measurement basis may affect whether information provided by that measurement basis provides a faithful representation of a Statutory Board's financial position and financial performance. A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently faithful representation (see paragraph 2.22). In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information.

6.61 Measurement uncertainty is different from both outcome uncertainty and existence uncertainty:

(a) outcome uncertainty arises when there is uncertainty about the amount or timing of any inflow or outflow of economic benefits that will result from an asset or liability.
(b) existence uncertainty arises when it is uncertain whether an asset or a liability exists. Paragraphs 5.12–5.14 discuss how existence uncertainty may affect decisions about whether a Statutory Board recognises an asset or liability when it is uncertain whether that asset or liability exists.

6.62 The presence of outcome uncertainty or existence uncertainty may sometimes contribute to measurement uncertainty. However, outcome uncertainty or existence uncertainty does not necessarily result in measurement uncertainty. For example, if the fair value of an asset can be determined directly by observing prices in an active market, no measurement uncertainty is associated with the measurement of that fair value, even if it is uncertain how much cash the asset will ultimately produce and hence there is outcome uncertainty.

Enhancing qualitative characteristics and the cost constraint

6.63 The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint, have implications for the selection of a measurement basis. The following paragraphs discuss those implications. Paragraphs 6.69–6.76 discuss further implications specific to particular measurement bases. The enhancing qualitative characteristic of timeliness has no specific implications for measurement.

6.64 Just as cost constrains other financial reporting decisions, it also constrains the selection of a measurement basis. Hence, in selecting a measurement basis, it is important to consider whether the benefits of the information provided to users of financial statements by that measurement basis are likely to justify the costs of providing and using that information.

6.65 Consistently using the same measurement bases for the same items, either from period to period within a reporting Statutory Board or in a single period across Statutory Boards, can help make financial statements more comparable.

6.66 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. If a change is made, users of financial statements may need explanatory information to enable them to understand the effect of that change.

6.67 Understandability depends partly on how many different measurement bases are used and on whether they change over time. In general, if more measurement bases are used in a set of financial statements, 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 informative. However, it could be appropriate to use more measurement bases if that is necessary to provide useful information.

6.68 Verifiability is enhanced by using measurement bases that result in measures that can be independently corroborated either directly, for example, by observing prices, or indirectly, for example, by checking inputs to a model. If a measure cannot be verified, users of financial statements may need explanatory information to enable them to understand how the measure was determined. In some such cases, it may be necessary to specify the use of a different measurement basis.

Historical cost

6.69 In many situations, it is simpler, and hence less costly, to measure historical cost than it is to measure a current value. In addition, measures determined applying a historical cost measurement basis are generally well understood and, in many cases, verifiable.

6.70 However, estimating consumption and identifying and measuring impairment losses or onerous liabilities can be subjective. Hence, the historical cost of an asset or liability can sometimes be as difficult to measure or verify as a current value.

6.71 Using a historical cost measurement basis, identical assets acquired, or liabilities incurred, at different times can be reported in the financial statements at different amounts. This can reduce comparability, both from period to period for a reporting Statutory Board and in a single period across Statutory Boards.

Current value

6.72 Because fair value is determined from the perspective of market participants, not from a Statutory Board-specific perspective, and is independent of when the asset was acquired or the liability was incurred, identical assets or liabilities measured at fair value will, in principle, be measured at the same amount by Statutory Boards that have access to the same markets. This can enhance comparability both from period to period for a reporting Statutory Board and in a single period across Statutory Boards. In contrast, because value in use and fulfilment value reflect a Statutory Board-specific perspective, those measures could differ for identical assets or liabilities in different Statutory Boards. Those differences may reduce comparability, particularly if the assets or liabilities contribute to cash flows in a similar manner.

6.73 If the fair value of an asset or liability can be determined directly by observing prices in an active market, the process of fair value measurement is low-cost, simple and easy to understand; and the fair value can be verified through direct observation.

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

(a) estimating inputs to the valuation and applying the valuation technique 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. Consequently, the measures of identical assets or liabilities may differ. That would reduce comparability.

6.75 In many cases, value in use cannot be determined meaningfully for an individual asset used in combination with other assets. Instead, the value in use is determined for a group of assets and the result may then need to be allocated to individual assets. This process can be subjective and arbitrary. In addition, estimates of value in use for an asset may inadvertently reflect the effect of synergies with other assets in the group. 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 regular 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 historical cost is fully recoverable.

6.76 Using a current cost measurement basis, identical assets acquired or liabilities incurred at different times are reported in the financial statements at the same amount. This can enhance comparability, both from period to period for a reporting Statutory Board and in a single period across Statutory Boards. However, determining current cost can be complex, subjective and costly. For example, as noted in paragraph 6.22, it may be necessary to estimate the current cost of an asset by adjusting the current price of a new asset to reflect the current age and condition of the asset held by the Statutory Board. In addition, because of changes in technology and changes in Statutory Board’s activities, many assets would not be replaced with identical assets. Thus, a further subjective adjustment to the current price of a new asset would be required in order to estimate the current cost of an asset equivalent to the existing asset. Also, splitting changes in current cost carrying amounts between the current cost of consumption and the effect of changes in prices (see paragraph 6.42) may be complex and require arbitrary assumptions. Because of these difficulties, current cost measures may lack verifiability and understandability.

Factors specific to initial measurement

6.77 Paragraphs 6.43–6.76 discuss factors to consider when selecting a measurement basis, whether for initial recognition or subsequent measurement. Paragraphs 6.78–6.82 discuss some additional factors to consider at initial recognition.

6.78 At initial recognition, the cost of an asset acquired, or of a liability incurred, as a result of an event that is a transaction on market terms is normally similar to its fair value at that date, unless transaction costs are significant. Nevertheless, even if those two amounts are similar, it is necessary to describe what measurement basis is used at initial recognition. If historical cost will be used subsequently, that measurement basis is also normally appropriate at initial recognition. Similarly, if a current value will be used subsequently, it is also normally appropriate at initial recognition. Using the same measurement basis for initial recognition and subsequent measurement avoids recognising income or expenses at the time of the first subsequent measurement solely because of a change in measurement basis (see paragraph 6.48).

6.79 When ~~a~~ Statutory Board acquires an asset, or incurs a liability, in exchange for transferring another asset or liability as a result of a transaction on market terms, the initial measure of the asset acquired, or the liability incurred, determines whether any income or expenses arise from the transaction. When an asset or liability is measured at cost, no income or expenses arise at initial recognition, unless income or expenses arise from the derecognition of the transferred asset or liability, or unless the asset is impaired or the liability is onerous.

6.80 Assets may be acquired, or liabilities may be incurred, as a result of an event that is not a transaction on market terms. For example:

(a) the transaction price may be affected by relationships between the parties, or by financial distress or other duress of one of the parties;
(b) an asset may be granted to the Statutory Board free of charge by the Government or donated to the Statutory Board by another party;
(c) a liability may be imposed by legislation or regulation; or
(d) a liability to pay compensation or a penalty may arise from an act of wrongdoing.

6.81 In such cases, measuring the asset acquired, or the liability incurred, at its historical cost may not provide a faithful representation of the Statutory Board's assets and liabilities and of any income or expenses arising from the transaction or other event. Hence, it may be appropriate to measure the asset acquired, or the liability incurred, at deemed cost, as described in paragraph 6.6. Any difference between that deemed cost and any consideration given or received would be recognised as income or expenses at initial recognition.

6.82 When assets are acquired, or liabilities incurred, as a result of an event that is not a transaction on market terms, all relevant aspects of the transaction or other event need to be identified and considered. For example, it may be necessary to recognise other assets, other liabilities, contributions from equity providers or distributions to equity providers to faithfully represent the substance of the effect of the transaction or other event on the Statutory Board's financial position (see paragraphs 4.59–4.62) and any related effect on the Statutory Board's financial performance.

More than one measurement basis

6.83 Sometimes, consideration of the factors described in paragraphs 6.43–6.76 may lead to the conclusion that more than one measurement basis is needed for an asset or liability and for related income and expenses in order to provide relevant information that faithfully represents both the Statutory Board's financial position and its financial performance.

6.84 In most cases, the most understandable way to provide that information is:

(a) to use a single measurement basis both for the asset or liability in the statement of financial position and for related income and expenses in the statement(s) of financial performance; and
(b) to provide in the notes additional information applying a different measurement basis.

6.85 However, in some cases, that information is more relevant, or results in a more faithful representation of both the Statutory Board's financial position and its financial performance, through the use of:

(a) a current value measurement basis for the asset or liability in the statement of financial position; and
(b) a different measurement basis for the related income and expenses in the statement of income and expenditure[4] (see paragraphs 7.17–7.18).
(c) In selecting those measurement bases, it is necessary to consider the factors discussed in paragraphs 6.43–6.76.

6.86 In such cases, the total income or total expenses arising in the period from the change in the current value of the asset or liability is separated and classified (see paragraphs 7.14–7.19) so that:

(a) the statement of income and expenditure includes the income or expenses measured applying the measurement basis selected for that statement; and
(b) other comprehensive income includes all the remaining income or expenses. As a result, the accumulated other comprehensive income related to that asset or liability equals the difference between:
    (i) the carrying amount of the asset or liability in the statement of financial position; and
    (ii) the carrying amount that would have been determined applying the measurement basis selected for the statement of income and expenditure.

6.87 The total carrying amount of equity (total equity) is not measured directly. It equals the total of the carrying amounts of all recognised assets less the total of the carrying amounts of all recognised liabilities.

Measurement of equity

6.88 Because general purpose financial statements are not designed to show a Statutory Board's value, the total carrying amount of equity will not generally equal:

(a) the aggregate value of equity claims on the Statutory Board; or

[4] The *SB-FRS Conceptual Framework* does not specify whether the statement(s) of financial performance comprise(s) a single statement or two statements. The *SB-FRS Conceptual Framework* uses the term 'statement of income and expenditure' to refer both to a separate statement and to a separate section within a single statement of financial performance.

(b) the amount that could be raised by selling all of the Statutory Board's assets and settling all of its liabilities.

6.89 Although total equity is not measured directly, it may be appropriate to measure directly some components of equity (see paragraph 4.66). Nevertheless, because total equity is measured as a residual, at least one component of equity cannot be measured directly.

6.90 The total carrying amount of an individual component of equity is normally positive, but can be negative in some circumstances. Similarly, total equity is generally positive, but it can be negative, depending on which assets and liabilities are recognised and on how they are measured.

Cash-flow-based measurement techniques

6.91 Sometimes, a measure cannot be observed directly. In some such cases, one way to estimate the measure is by using cash-flow-based measurement techniques. Such techniques are not measurement bases. They are techniques used in applying a measurement basis. Hence, when using such a technique, it is necessary to identify which measurement basis is used and the extent to which the technique reflects the factors applicable to that measurement basis. For example, if the measurement basis is fair value, the applicable factors are those described in paragraph 6.14.

6.92 Cash-flow-based measurement techniques can be used in applying a modified measurement basis, for example, fulfilment value modified to exclude the effect of the possibility that the Statutory Board may fail to fulfil a liability (own credit risk). Modifying measurement bases may sometimes result in information that is more relevant to the users of financial statements or that may be less costly to produce or to understand. However, modified measurement bases may also be more difficult for users of financial statements to understand.

6.93 Outcome uncertainty (see paragraph 6.61(a)) arises from uncertainties about the amount or timing of future cash flows. Those uncertainties are important characteristics of assets and liabilities. When measuring an asset or liability by reference to estimates of uncertain future cash flows, one factor to consider is possible variations in the estimated amount or timing of those cash flows (see paragraph 6.14(b)). Those variations are considered in selecting a single amount from within the range of possible cash flows. The amount selected is itself sometimes the amount of a possible outcome, but this is not always the case. The amount that provides the most relevant information is usually one from within the central part of the range (a central estimate). Different central estimates provide different information. For example:

(a) the expected value (the probability-weighted average, also known as the statistical mean) reflects the entire range of outcomes and gives more weight to the outcomes that are more likely. The expected value is not intended to predict the ultimate inflow or outflow of cash or other economic benefits arising from that asset or liability.
(b) the maximum amount that is more likely than not to occur (similar to the statistical median) indicates that the probability of a subsequent loss is no more than 50% and that the probability of a subsequent gain is no more than 50%.
(c) the most likely outcome (the statistical mode) is the single most likely ultimate inflow or outflow arising from an asset or liability.

6.94 A central estimate depends on estimates of future cash flows and possible variations in their amounts or timing. It does not capture the price for bearing the uncertainty that the ultimate outcome may differ from that central estimate (that is, the factor described in paragraph 6.14(d)).

6.95 No central estimate gives complete information about the range of possible outcomes. Hence users may need information about the range of possible outcomes.

from paragraph

CHAPTER 7— PRESENTATION AND DISCLOSURE

Presentation and disclosure as communication tools

7.1 A reporting Statutory Board communicates information about its assets, liabilities, equity, income and expenses by presenting and disclosing information in its financial statements.

7.2 Effective communication of information in financial statements makes that information more relevant and contributes to a faithful representation of a Statutory Board's assets, liabilities, equity, income and expenses. It also enhances the understandability and comparability of information in financial statements. Effective communication of information in financial statements requires:

- (a) focusing on presentation and disclosure objectives and principles rather than focusing on rules;
- (b) classifying information in a manner that groups similar items and separates dissimilar items; and
- (c) aggregating information in such a way that it is not obscured either by unnecessary detail or by excessive aggregation.

7.3 Just as cost constrains other financial reporting decisions, it also constrains decisions about presentation and disclosure. Hence, in making decisions about presentation and disclosure, it is important to consider whether the benefits provided to users of financial statements by presenting or disclosing particular information are likely to justify the costs of providing and using that information.

Presentation and disclosure objectives and principles

7.4 To facilitate effective communication of information in financial statements, when developing presentation and disclosure requirements in Standards a balance is needed between:

- (a) giving Statutory Boards the flexibility to provide relevant information that faithfully represents the Statutory Board's assets, liabilities, equity, income and expenses; and
- (b) requiring information that is comparable, both from period to period for a reporting Statutory Board and in a single reporting period across Statutory Boards.

7.5 Including presentation and disclosure objectives in Standards supports effective communication in financial statements because such objectives help Statutory Boards to identify useful information and to decide how to communicate that information in the most effective manner.

7.6 Effective communication in financial statements is also supported by considering the following principles:

- (a) Statutory Board-specific information is more useful than standardized descriptions, sometimes referred to as 'boilerplate'; and
- (b) duplication of information in different parts of the financial statements is usually unnecessary and can make financial statements less understandable.

Classification

7.7 Classification is the sorting of assets, liabilities, equity, income or expenses on the basis of shared characteristics for presentation and disclosure purposes. Such characteristics include—but are not limited to—the nature of the item, its role (or function) within the Statutory Board's activities, and how it is measured.

7.8 Classifying dissimilar assets, liabilities, equity, income or expenses together can obscure relevant information, reduce understandability and comparability and may not provide a faithful representation of what it purports to represent.

Classification of assets and liabilities

7.9 Classification is applied to the unit of account selected for an asset or liability (see paragraphs 4.51–4.58). However, it may sometimes be appropriate to separate an asset or liability into components that have different characteristics and to classify those components separately. That would be appropriate when classifying those components separately would enhance the usefulness of the resulting financial information. For example, it could be appropriate to separate an asset or liability into current and non-current components and to classify those components separately.

Offsetting

7.10 Offsetting occurs when a Statutory Board recognises and measures both an asset and liability as separate units of account, but groups them into a single net amount in the statement of financial position. Offsetting classifies dissimilar items together and therefore is generally not appropriate.

7.11 Offsetting assets and liabilities differs from treating a set of rights and obligations as a single unit of account (see paragraphs 4.51–4.58).

Classification of equity

7.12 To provide useful information, it may be necessary to classify equity claims separately if those equity claims have different characteristics.

7.13 Similarly, to provide useful information, it may be necessary to classify components of equity separately if some of those components are subject to particular legal, regulatory or other requirements. For example, in Singapore, a Statutory Board is required to make dividend distributions to the Government in return for equity injections (see paragraph 4.68). Separate presentation or disclosure of those reserves may provide useful information.

Classification of income and expenses

7.14 Classification is applied to:

(a) income and expenses resulting from the unit of account selected for an asset or liability; or
(b) components of such income and expenses if those components have different characteristics and are identified separately. For example, a change in the current value of an asset can include the effects of value changes and the accrual of interest (see Table 6.1). It would be appropriate to classify those components separately if doing so would enhance the usefulness of the resulting financial information.

Surpluses or deficits and other comprehensive income

7.15 Income and expenses are classified and included either:

(a) in the statement of income and expenditure;[5] or
(b) outside the statement of income and expenditure, in other comprehensive income.

7.16 The statement of income and expenditure is the primary source of information about a~~n~~ Statutory Board's financial performance for the reporting period. That statement contains a total for surpluses or deficits that provides a highly summarised depiction of the Statutory Board's financial performance for the period. Many users of financial statements incorporate that total in their analysis either as a starting point for that analysis or as the main indicator of the Statutory Board's financial performance for the period. Nevertheless, understanding a Statutory Board's financial performance for the period requires an analysis of all recognised income and expenses—including income and expenses included in other comprehensive income—as well as an analysis of other information included in the financial statements.

7.17 Because the statement of income and expenditure is the primary source of information about a Statutory Board's financial performance for the period, all income and expenses are, in principle, included in that statement. However, in developing Standards, the Board may decide in exceptional circumstances that income or expenses arising from a change in the current value of an asset or liability are to be included in other comprehensive income when doing so would result in the statement of income and expenditure providing more relevant information, or providing a more faithful representation of the Statutory Board's financial performance for that period.

7.18 Income and expenses that arise on a historical cost measurement basis (see Table 6.1) are included in the statement of income and expenditure. That is also the case when income and expenses of that type are separately identified as a component of a change in the current value of an asset or liability. For example, if a financial asset is measured at current value and if interest income is identified separately from other changes in value, that interest income is included in the statement of income and expenditure.

7.19 In principle, income and expenses included in other comprehensive income in one period are reclassified from other comprehensive income into the statement of income and expenditure in a future period when doing so results in the statement of income and expenditure providing more relevant information, or providing a more faithful representation of the Statutory Board's financial performance for that future period. However, if, for example, there is no clear basis for identifying the period in which reclassification would have that result, or the amount that should be reclassified, the income and expenses included in other comprehensive income are not to be subsequently reclassified.

[5] The *SB-FRS Conceptual Framework* does not specify whether the statement(s) of financial performance comprise(s) a single statement or two statements. The *SB-FRS Conceptual Framework* uses the term 'statement of income and expenditure' to refer to a separate statement and to a separate section within a single statement of financial performance. Likewise, it uses the term 'total for surpluses or deficits' to refer both to a total for a separate statement and to a subtotal for a section within a single statement of financial performance.

Aggregation

7.20 Aggregation is the adding together of assets, liabilities, equity, income or expenses that have shared characteristics and are included in the same classification.

7.21 Aggregation makes information more useful by summarising a large volume of detail. However, aggregation conceals some of that detail. Hence, a balance needs to be found so that relevant information is not obscured either by a large amount of insignificant detail or by excessive aggregation.

7.22 Different levels of aggregation may be needed in different parts of the financial statements. For example, typically, the statement of financial position and the statement(s) of financial performance provide summarised information and more detailed information is provided in the notes.

from paragraph

CHAPTER 8— CONCEPTS OF CAPITAL AND CAPITAL MAINTENANCE

Concepts of capital

8.1 A financial concept of capital is adopted by most entities in preparing their financial statements. Under a financial concept of capital, such as invested money or invested purchasing power, capital is synonymous with the net assets or equity of the entity. Under a physical concept of capital, such as operating capability, capital is regarded as the productive capacity of the entity based on, for example, units of output per day.

8.2 The selection of the appropriate concept of capital by an entity should be based on the needs of the users of its financial statements. Thus, a financial concept of capital should be adopted if the users of financial statements are primarily concerned with the maintenance of nominal invested capital or the purchasing power of invested capital. If, however, the main concern of users is with the operating capability of the entity, a physical concept of capital should be used. The concept chosen indicates the goal to be attained in determining surplus, even though there may be some measurement difficulties in making the concept operational.

Concepts of capital maintenance and the determination of surplus

8.3 The concepts of capital in paragraph 8.1 give rise to the following concepts of capital maintenance:

(a) *Financial capital maintenance*. Under this concept a surplus is earned only if the financial (or money) amount of the net assets at the end of the period exceeds the financial (or money) amount of net assets at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period. Financial capital maintenance can be measured in either nominal monetary units or units of constant purchasing power.

(b) *Physical capital maintenance*. Under this concept a surplus is earned only if the physical productive capacity (or operating capability) of the entity (or the resources or funds needed to achieve that capacity) at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period.

8.4 The concept of capital maintenance is concerned with how an entity defines the capital that it seeks to maintain. It provides the linkage between the concepts of capital and the concepts of surplus because it provides the point of reference by which surplus is measured; it is a prerequisite for distinguishing between an entity's return on capital and its return of capital; only inflows of assets in excess of amounts needed to maintain capital may be regarded as surplus and therefore as a return on capital. Hence, surplus is the residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. If expenses exceed income the residual amount is a deficit.

8.5 The physical capital maintenance concept requires the adoption of the current cost basis of measurement. The financial capital maintenance concept, however, does not require the use of a particular basis of measurement. Selection of the basis under this concept is dependent on the type of financial capital that the entity is seeking to maintain.

8.6 The principal difference between the two concepts of capital maintenance is the treatment of the effects of changes in the prices of assets and liabilities of the entity. In general terms, an entity has maintained its capital if it has as much capital at the end of the period as it had at the beginning of the period. Any amount over and above that required to maintain the capital at the beginning of the period is surplus.

8.7 Under the concept of financial capital maintenance where capital is defined in terms of nominal monetary units, surplus represents the increase in nominal money capital over the period. Thus, increases in the prices of assets held over the period, conventionally referred to as holding gains, are, conceptually, surplus. They may not be recognised as such, however, until the assets are disposed of in an exchange transaction. When the concept of financial capital maintenance is defined in terms of constant purchasing power units, surplus represents the increase in invested purchasing power over the period. Thus, only that part of the increase in the prices of assets that exceeds the increase in the general level of prices is regarded as surplus. The rest of the increase is treated as a capital maintenance adjustment and, hence, as part of equity.

8.8 Under the concept of physical capital maintenance when capital is defined in terms of the physical productive capacity, surplus represents the increase in that capital over the period. All price changes affecting the assets and liabilities of the entity are viewed as changes in the measurement of the physical productive capacity of the entity; hence, they are treated as capital maintenance adjustments that are part of equity and not as surplus.

8.9 The selection of the measurement bases and concept of capital maintenance will determine the accounting model used in the preparation of the financial statements. Different accounting models exhibit different degrees of relevance and reliability and, as in other areas, management must seek a balance between relevance and reliability. This SB-FRS *Conceptual Framework* is applicable to a range of accounting models and provides guidance on preparing and presenting the financial statements constructed under the chosen model. At the present time, there is no intention to prescribe a particular model. This intention will, however, be reviewed in the light of world developments.

Capital maintenance adjustments

8.10 The revaluation or restatement of assets and liabilities gives rise to increases or decreases in equity. While these increases or decreases meet the definition of income and expenses, they are not included in the statement of income and expenditure under certain concepts of capital maintenance. Instead these items are included in equity as capital maintenance adjustments or revaluation reserves.