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Accounting Principles, Practices, Norms and Conventions: Measurement of Assets and Liabilities

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Abstract

Considering 'Asset' it is observed that application of depreciation is considered the more often practice to measure assets on the balance sheet date. There is need for using suitable/appropriate models for working out fair price of an asset. The measurement could be done with reference to the market price or realizable cost. The least of the prices may be taken into account. If market is volatile for some assets, conservative approach will better serve the purpose. The basis of valuation may be disclosed in the financial statements as demanded by corporate governance (disclosure and transparency). In my opinion, at the time of purchase of an asset, its value should be the cost incurred in purchasing it. Afterwards, depreciation at the permitted/appropriate rate may be applied to work out value on the balance sheet date. I also suggest that we may re-evaluate each asset as per market price at quarterly rests to keep the position up to date. I emphasise on fair value as the best option,

As far as Liabilities are concerned, these are based on contract or commitment and these remain unchanged in money value if all conditions in contract are met by the entities concerned – debtor and creditor. These are always specific and in money terms. Therefore, there should not be hassles in dealing with liabilities. Promises have to be kept in business to establish credibility and generate goodwill.

Key words: Assets, liabilities, depreciation, financial statements, international accounting and audit standards, research and development.

1. RESEARCH SCHOLAR, PTU, JALANDHAR

Introduction

To begin with, I like to quote the position held by various authorities regarding terms and definitions in vogue. According to Department of Treasury and Finance, Accounting Policy Framework (APS), APF III, Asset Accounting Framework 6, Reissued 30 June 2010, "Recognition of an asset should be unaffected by questions of whether the asset is acquired from, or developed by, an external party or constructed or developed internally".

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Initial Recognition of Assets: As per APS 2.12, “Assets acquired at no cost or for nominal consideration are to be initially recognized at their fair value (Dr Asset and Cr Revenue)”.

‘Deemed Asset’ are “Funds credited by an agency to, and held in the specified accounts, are deemed to be assets of that agency”. ‘Materiality Thresholds’ apply as per APS 2.14 – 2.18. “Government entities will control a large amount of relatively low value items; these items would include furniture, office equipment, workshop tools, etc. These are and should be treated as expense in the year of their purchase”. (APS 2.14). “A non-current asset, or group of assets, as defined in APS 2.17 and APS 2.18, with a fair value at the time of acquisition of less than
$10 000 need not be recognized (capitalized) as an asset. It may be expensed in the period in which it is acquired”. (APS 2.15). Similarly, “Entities may control large numbers of similar assets with individual values below the capitalization threshold. When grouped together, they represent a total value which is a significant percentage of the total value of the entities' assets. An entity may group those assets for capitalization” (APS 2.17). “Entities may also control dissimilar assets with individual values below the capitalization threshold. Examples of this are a computer network, PABX system or sewerage system” (APS 2.18).

Let me record here that IASB and FASB (FASB, 2008) noted the following weaknesses in current Frameworks’ asset definitions:

“Some users misinterpret the terms ‘expected’ (IASB definition) and ‘probable’ (FASB definition) that there must be high likelihood of future economic benefits for the definition to be met; this excludes assets with low likelihood of future economic benefits”.

“Too much emphasis is placed on identifying future flow of economic benefits, instead of focusing on the asset item that presently exists, economic resource”.

“Some use the term ‘control’ to mean same as for the purpose of consolidation accounting. The term should focus on whether the entity has some rights or privileged access to the economic resource”.

Survey of Current Literature

The (current) definitions place undue emphasis on identifying the past transactions or events that gave rise to the asset, instead of focusing on whether the entity had access to the economic resource at the balance sheet date”: (Deegan. 2011, p.64).

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Deegan. (2011, p.62) says three things: (i) that control of asset would be with entity; (ii) assets grow as benefits from past events and, (iii) benefits will accrue in future".

Now, I mention the Principles formulated by APS; these are reproduce below:

According to Department of Treasury and Finance, Accounting Policy Framework, APF- III, Asset Accounting Framework 9 - Reissued 30 June 2010:

Materiality Threshold: APS 3.1: Other than for intangible assets (refer to APS 12.6), subsequent to initial recognition, each class of non-current assets will be measured at fair value having regard to the asset's highest and best use. The cost basis of measurement will not apply. Other APS relate to fair value, revaluation, periodicity of valuation, whole-group valuation instead of single item valuation, internal and/or external appraisal/valuation, treatment of depreciation, revaluation surplus, etc.

Again, according to Department of Treasury and Finance, Accounting Policy Framework, APF- III, Asset Accounting Framework 6, Reissued 30 June 2010, "Items that fail the Recognition Criteria will be disclosed in the explanatory notes and will not be reported in the Statement of Financial Position. For example, expenditure on research, rare paintings or books, litigation in pursuit of a claim for damages, etc., because it is not possible to measure their value".

Paragraph 70(a) of AASB Framework contains definition of Income as "increases in income benefits in the form of inflows or enhancements of assets or decrease of liabilities ……", Deegan (2011, p.67). Again, paragraph 70(b) of AASB Framework contains definition of Expenses "Expenses are decreases in economic benefits as outflows or depletion of assets …..", Deegan (2011, p.66).