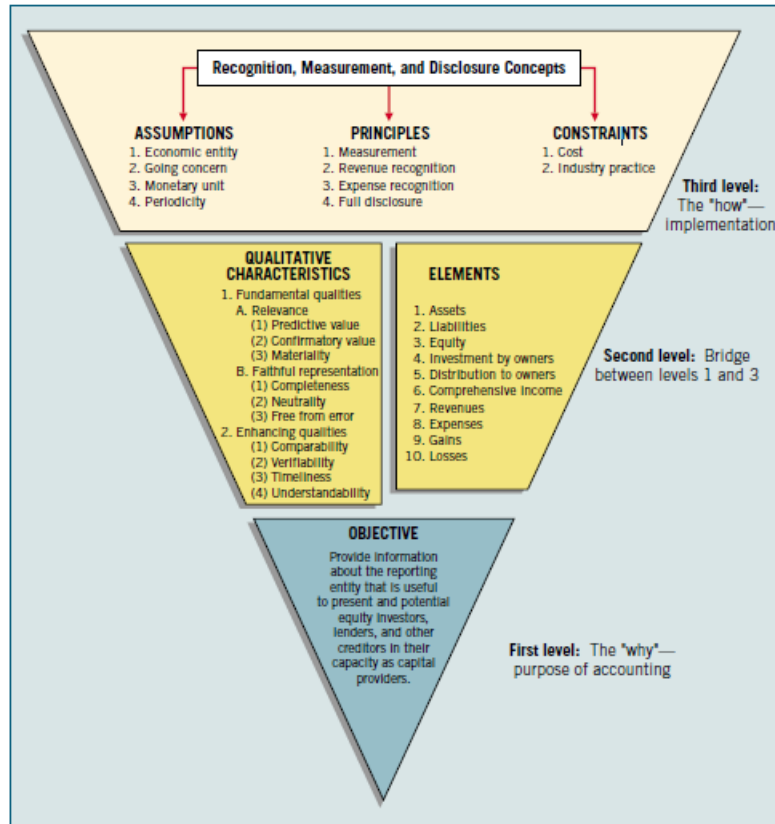


**Department of Accounting would like
to invite you to a Seminar Titled**

**"Alternative Measurement
under Conceptual Frame
Work"**

By

Dr. Luqman Mohammed Saeed



We presently have a “mixed-attribute” system that permits the use of various measurement bases. The most commonly used measurements are based on historical cost and fair value. Here, we discuss each.

Historical Cost. GAAP requires that companies account for and report many assets and liabilities on the basis of acquisition price. This is often referred to as the **historical cost principle**. Historical cost has an important advantage over other valuations: **It is generally thought to be verifiable.**

To illustrate this advantage, consider the problems if companies select current selling price instead. Companies might have difficulty establishing a value for unsold items.

Every member of the accounting department might value the assets differently. Further,

How often would it be necessary to establish sales value? All companies close their Accounts at least annually. But some compute their net income every month. Those companies would have to place a sales value on every asset each time they wished to determine income. Critics raise similar objections against current cost (replacement cost, present value of future cash flows) and any other basis of valuation **except historical cost**.

What about liabilities? Do companies account for them on a cost basis? Yes, they do.

Companies issue liabilities, such as bonds, notes, and accounts payable, in exchange for

assets (or services), for an agreed-upon price. **This price, established by the exchange transaction, is the “cost” of the liability.** A company uses this amount to record the liability in the accounts and report it in financial statements. Thus, many users prefer historical cost because it provides them with a **verifiable benchmark** for measuring historical trends.

Fair Value. **Fair value** is defined as “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.” Fair value is therefore a market-based measure. **[1]** Recently, GAAP has increasingly called for use of fair value measurements in the financial statements.

This is often referred to as the **fair value principle**. Fair value information may be more useful than historical cost for certain types of assets and liabilities and in certain industries.

For example, companies report many financial instruments, including derivatives, at fair value. Certain industries, such as brokerage houses and mutual funds, prepare their basic financial statements on a fair value basis.