ภาคผนวก

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ภาคผนวก ก

ตัวอย่างงบการเงินที่ปฏิบัติตามหลักการบัญชีที่รับรองทั่วไปของประเทศไทย

(ไม่รวมหมายเหตุประกอบงบการเงิน)

บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย
(THAI)

เป็นบริษัทจดทะเบียนในตลาดหลักทรัพย์แห่งประเทศไทย (Stock Exchange of Thailand: SET) โดยจัดอยู่ในกลุ่มขนส่ง ประกอบกิจการสายการบินพาณิชย์ (สายการบินไทย) และเป็นกิจการรัฐวิสาหกิจของประเทศไทยที่ถือหุ้นใหญ่โดยกระทรวงการคลัง — ดูรายละเอียดเกี่ยวกับบริษัทและงบการเงินเพิ่มเติมได้ที่ http:// www.thaiair.com

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บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย

งบดุล

ณ วันที่ 30 กันยายน 2546 และ 2545

หน่วย : บาท

		งบการเงินรวม		งบการเงินเฉพาะบริษัท	
	หมายเหตุ	2546	2545	2546	2545
สินทรัพย์					
สินทรัพย์หมุนเวียน					
เงินสดและรายการเทียบเท่าเงินสด	3.1	9,205,595,942	20,117,223,571	8,852,154,752	19,889,254,758
เงินฝากประจำธนาคารซึ่งมีกำหนดจ่ายคืน					
เกินกว่า 3 เดือน		3,266,968,582	632,206,185	3,266,968,582	632,206,185
เงินลงทุนชั่วคราว	3.2	464,698,198	149,655,337	464,698,198	149,655,337
ลูกหนี้การค้า-สุทธิ	3.3	12,487,308,725	13,201,683,343	12,436,556,840	13,199,668,913
สินค้าและพัสดุคงเหลือ-สุทธิ	3.4	3,636,445,054	3,530,547,721	3,636,445,054	3,530,547,721
สินทรัพย์หมุนเวียนอื่น					
ค่าใช้จ่ายล่วงหน้าเงินประกันและเงินมัดจำ		4,506,722,668	4,107,639,784	4,506,358,573	4,107,311,092
อื่น ๆ	3.5	1,027,371,394	1,644,888,781	1,007,199,182	1,515,774,884
รวมสินทรัพย์หมุนเวียน		**34,595,110,563**	**43,383,844,722**	**34,170,381,181**	**43,024,418,890**
สินทรัพย์ไม่หมุนเวียน					
เงินลงทุนซึ่งบันทึกโดยวิธีส่วนได้เสีย	3.6.1	881,672,921	874,298,101	1,175,562,930	1,129,506,110
เงินลงทุนระยะยาวอื่น	3.6.2	79,599,757	73,381,486	79,599,757	73,381,486
เงินให้กู้เพื่อลงทุนในการซื้ออะไหล่เครื่องบิน	3.9	22,183,066	27,449,664	22,183,066	27,449,664
ที่ดิน อาคารและอุปกรณ์-สุทธิ	3.8				
เครื่องบิน		59,427,503,075	55,129,520,462	59,427,503,075	55,129,520,462
เครื่องบินภายใต้สัญญาเช่า		51,817,987,968	43,072,054,106	51,817,987,968	43,072,054,106
อุปกรณ์การบินหมุนเวียน		7,834,461,671	8,385,842,592	7,834,461,671	8,385,842,592
ที่ดิน อาคารและค่าปรับปรุง		2,847,995,639	3,231,407,314	2,847,995,639	3,231,407,314
เครื่องมือโรงซ่อมและอุปกรณ์		4,366,034,717	4,348,688,751	4,275,054,813	4,278,249,391
สินทรัพย์ไม่หมุนเวียนอื่น					
ค่าใช้จ่ายรอการตัดบัญชี		345,910,606	-	345,910,606	-
เงินจ่ายล่วงหน้าค่าเครื่องบิน		-	12,971,766,099	-	12,971,766,099
ค่าสิทธิประโยชน์รอโอน		258,024,264	260,183,634	258,024,264	260,183,633
ภาษีเงินได้รอการตัดบัญชี	3.10	5,501,927,674	6,651,807,517	5,496,924,651	6,647,873,767
รวมสินทรัพย์ไม่หมุนเวียน		**133,383,301,358**	**135,026,399,726**	**133,581,208,440**	**135,207,234,624**
รวมสินทรัพย์		**167,978,411,921**	**178,410,244,448**	**167,751,589,621**	**178,231,653,514**

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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หน่วย : บาท

	หมายเหตุ	งบการเงินรวม 2546	งบการเงินรวม 2545	งบการเงินเฉพาะบริษัท 2546	งบการเงินเฉพาะบริษัท 2545
หนี้สินและส่วนของผู้ถือหุ้น					
หนี้สินหมุนเวียน					
เจ้าหนี้การค้า		4,655,074,192	3,872,767,705	4,647,347,056	3,869,340,849
เงินกู้ระยะสั้น	3.12	4,009,640,000	12,175,240,000	4,009,640,000	12,175,240,000
หนี้ที่ถึงกำหนดชำระภายในหนึ่งปี					
เงินกู้ระยะยาว	3.13	5,295,758,282	10,926,105,121	5,295,758,282	10,926,105,121
หนี้ภายใต้เงื่อนไขสัญญาเช่าเครื่องบิน	3.14	7,877,867,258	8,651,931,490	7,877,867,258	8,651,931,490
ตั๋วสัญญาใช้เงิน	3.15	1,050,000,000	1,050,000,000	1,050,000,000	1,050,000,000
หนี้สินหมุนเวียนอื่น					
ค่าใช้จ่ายค้างจ่าย		11,562,809,872	11,002,519,650	11,556,072,646	10,998,785,010
เงินปันผลค้างจ่าย	3.18	34,161,846	26,870,757	34,161,846	26,870,757
ภาษีเงินได้ค้างจ่าย		1,094,545,925	1,799,939,805	1,064,347,329	1,778,010,536
รายรับด้านขนส่งที่ยังไม่ถือเป็นรายได้		14,030,371,856	14,013,727,120	14,030,371,856	14,013,727,120
อื่นๆ	3.11	4,154,327,049	3,732,278,482	4,128,485,223	3,707,844,896
รวมหนี้สินหมุนเวียน		**53,764,556,280**	**67,251,380,130**	**53,694,051,496**	**67,197,855,779**
หนี้สินไม่หมุนเวียน					
หนี้สินระยะยาว					
เงินกู้ระยะยาว	3.13	29,490,714,661	36,824,867,614	29,490,714,661	36,824,867,614
หนี้ภายใต้เงื่อนไขสัญญาเช่าเครื่องบิน	3.14	35,292,040,815	34,800,841,704	35,292,040,815	34,800,841,704
ตั๋วสัญญาใช้เงิน	3.15	6,300,000,000	7,350,000,000	6,300,000,000	7,350,000,000
เงินกองทุนบำเหน็จพนักงาน	3.23	3,729,301,165	3,452,719,890	3,729,301,165	3,452,719,890
หนี้สินไม่หมุนเวียนอื่น		347,054,951	376,367,715	347,054,951	376,367,715
รวมหนี้สินไม่หมุนเวียน		**75,159,111,592**	**82,804,796,923**	**75,159,111,592**	**82,804,796,923**
รวมหนี้สิน		**128,923,667,872**	**150,056,177,053**	**128,853,163,088**	**150,002,652,702**
ส่วนของผู้ถือหุ้น					
ทุนเรือนหุ้น					
ทุนจดทะเบียน					
หุ้นสามัญ 1,700 ล้านหุ้น มูลค่าหุ้นละ 10 บาท	3.16	17,000,000,000	17,000,000,000	17,000,000,000	17,000,000,000
ทุนที่ออกและชำระแล้ว					
หุ้นสามัญ 1,400 ล้านหุ้น มูลค่าหุ้นละ 10 บาท		14,000,000,000	14,000,000,000	14,000,000,000	14,000,000,000
ส่วนเกินมูลค่าหุ้น		4,750,000,000	4,750,000,000	4,750,000,000	4,750,000,000
กำไรที่ยังไม่เกิดขึ้น	3.2	454,324,822	138,398,377	454,324,822	138,398,377
กำไร(ขาดทุน)สะสม					
จัดสรรแล้ว					
สำรองตามกฎหมาย	3.17	1,700,000,000	1,541,881,364	1,700,000,000	1,541,881,364
ยังไม่ได้จัดสรร		17,994,101,711	7,798,721,071	17,994,101,711	7,798,721,071
รวมส่วนของผู้ถือหุ้นบริษัทใหญ่		**38,898,426,533**	**28,229,000,812**	**38,898,426,533**	**28,229,000,812**
ส่วนของผู้ถือหุ้นส่วนน้อย		**156,317,516**	**125,066,583**	**-**	**-**
รวมส่วนของผู้ถือหุ้น		**39,054,744,049**	**28,354,067,395**	**38,898,426,533**	**28,229,000,812**
รวมหนี้สินและส่วนของผู้ถือหุ้น		**167,978,411,921**	**178,410,244,448**	**167,751,589,621**	**178,231,653,514**

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย
งบกำไรขาดทุน
สำหรับปีสิ้นสุดวันที่ 30 กันยายน 2546 และ 2545

หน่วย : บาท

	หมายเหตุ	งบการเงินรวม		งบการเงินเฉพาะบริษัท	
		2546	2545	2546	2545
รายได้จากการขายและการให้บริการ					
ค่าโดยสารและค่าน้ำหนักส่วนเกิน	3.19	106,408,738,055	102,195,967,287	106,408,738,055	102,195,967,287
ค่าระวางขนส่ง		21,370,905,982	19,981,396,153	21,370,905,982	19,981,396,153
ค่าไปรษณียภัณฑ์		871,312,615	728,138,288	871,312,615	728,138,288
กิจการอื่น		5,885,326,717	6,109,991,638	5,569,308,193	5,830,358,434
รวมรายได้จากการขายและการให้บริการ		**134,536,283,369**	**129,015,493,366**	**134,220,264,845**	**128,735,860,162**
ค่าใช้จ่ายในการขายและการให้บริการ					
ค่าใช้จ่ายเกี่ยวกับการบิน	3.19	32,174,120,643	25,994,872,814	32,174,120,643	25,994,872,814
ค่าบำรุงรักษาและค่าซ่อมแซม		15,435,020,462	15,998,385,088	15,435,020,462	15,998,385,088
ค่าใช้จ่ายเกี่ยวกับการบริการภาคพื้นดิน		20,170,725,173	19,651,957,611	20,170,725,173	19,651,957,611
ค่าใช้จ่ายในการบริการผู้โดยสาร		15,409,832,371	14,968,007,913	15,409,832,371	14,968,007,913
ค่าใช้จ่ายด้านการตลาด		10,968,570,090	10,831,601,999	10,968,570,090	10,831,601,999
ค่าใช้จ่ายในการบริหารและทั่วไป		2,021,090,705	1,711,463,710	2,021,090,705	1,711,463,710
ค่าตอบแทนกรรมการ		5,604,380	4,568,842	3,996,989	3,389,542
ค่าเช่าเครื่องบินและอะไหล่		7,832,669,515	8,426,485,181	7,832,669,515	8,426,485,181
ค่าเสื่อมราคาเครื่องบิน		9,373,796,179	8,692,541,076	9,373,796,179	8,692,541,076
ค่าเสื่อมราคาสินทรัพย์ถาวรอื่น		1,572,526,789	1,686,585,669	1,547,974,436	1,671,117,843
กิจการอื่น		1,858,169,204	2,360,629,983	1,698,068,892	2,203,808,740
รวมค่าใช้จ่ายในการขายและการให้บริการ		**116,822,125,511**	**110,327,099,886**	**116,635,865,455**	**110,153,631,517**
กำไรจากการขายและการให้บริการยกไป		**17,714,157,858**	**18,688,393,480**	**17,584,399,390**	**18,582,228,645**

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย

งบกำไรขาดทุน

สำหรับปีสิ้นสุดวันที่ 30 กันยายน 2546 และ 2545

หน่วย : บาท

	หมายเหตุ	งบการเงินรวม		งบการเงินเฉพาะบริษัท	
		2546	2545	2546	2545
กำไรจากการขายและการให้บริการยกมา		**17,714,157,858**	**18,688,393,480**	**17,584,399,390**	**18,582,228,645**
รายได้อื่น					
ดอกเบี้ยรับ		263,992,439	319,541,870	262,777,979	318,635,124
อื่น ๆ	3.21	460,430,662	174,868,159	457,714,085	174,281,702
รวมรายได้อื่น		**724,423,101**	**494,410,029**	**720,492,064**	**492,916,826**
ค่าใช้จ่ายอื่น					
ผลกำไรจากอัตราแลกเปลี่ยน					
เงินตราต่างประเทศ		(4,159,844,707)	(2,410,303,960)	(4,159,844,707)	(2,410,303,960)
ผลประโยชน์กองทุนบำเหน็จฯ		37,487,143	47,284,715	37,487,143	47,284,715
อื่น ๆ	3.22	599,534,067	1,524,690,023	598,300,348	1,522,963,164
รวมค่าใช้จ่ายอื่น		**(3,522,823,497)**	**(838,329,222)**	**(3,524,057,216)**	**(840,056,081)**
กำไรจากการดำเนินงาน		**21,961,404,456**	**20,021,132,731**	**21,828,948,670**	**19,915,201,552**
ส่วนแบ่งกำไรจากเงินลงทุนตามวิธีส่วนได้เสีย					
ส่วนได้เสียในกำไรสุทธิของบริษัทย่อย		-	-	51,057,000	37,058,276
ส่วนได้เสียในกำไรสุทธิของบริษัทร่วม		165,599,050	171,088,604	165,599,050	171,088,604
รวมส่วนแบ่งกำไรจากเงินลงทุนตามวิธีส่วนได้เสีย		**165,599,050**	**171,088,604**	**216,656,050**	**208,146,880**
กำไรก่อนดอกเบี้ยจ่ายและภาษีเงินได้		**22,127,003,506**	**20,192,221,335**	**22,045,604,720**	**20,123,348,432**
ดอกเบี้ยจ่าย		4,321,996,221	5,776,258,294	4,321,996,221	5,776,258,294
ภาษีเงินได้		5,310,132,076	4,204,121,686	5,270,109,223	4,165,174,403
กำไรหลังภาษีเงินได้		**12,494,875,209**	**10,211,841,355**	**12,453,499,276**	**10,181,915,735**
กำไรสุทธิส่วนที่เป็นของผู้ถือหุ้นส่วนน้อย		41,375,933	29,925,620	-	-
กำไรสุทธิ		**12,453,499,276**	**10,181,915,735**	**12,453,499,276**	**10,181,915,735**
กำไรต่อหุ้นขั้นพื้นฐาน	2.8				
กำไรสุทธิ		8.90	7.27	8.90	7.27

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย
งบแสดงการเปลี่ยนแปลงส่วนของผู้ถือหุ้น
สำหรับปีสิ้นสุดวันที่ 30 กันยายน 2546 และ 2545

หน่วย : บาท

	หมายเหตุ	งบการเงินรวม						
		ทุนเรือนหุ้นที่ออกและชำระแล้ว	ส่วนเกินมูลค่าหุ้น	กำไร(ขาดทุน) สะสม (ปรับปรุงใหม่)	กำไรที่ยังไม่เกิดขึ้น	สำรองตามกฎหมาย	ส่วนของผู้ถือหุ้นส่วนน้อย	รวม
ยอดคงเหลือต้นปี 2545		14,000,000,000	4,750,000,000	(7,255,268,487)	-	1,032,785,577	101,890,963	12,629,408,053
- ปรับปรุงบันทึกค่าลดหย่อนทางภาษีจากผลขาดทุนจากอัตราแลกเปลี่ยนเงินตราต่างประเทศ		-	-	5,381,169,610	-	-	-	5,381,169,610
ยอดคงเหลือที่ปรับปรุงแล้ว		14,000,000,000	4,750,000,000	(1,874,098,877)	-	1,032,785,577	101,890,963	18,010,577,663
กำไรที่ยังไม่เกิดขึ้น		-	-	-	138,398,377	-	-	138,398,377
บวก กำไรสุทธิ		-	-	10,181,915,735	-	-	29,925,620	10,211,841,355
หัก เงินปันผลจ่าย		-	-	-	-	-	(6,750,000)	(6,750,000)
หัก สำรองตามกฎหมาย		-	-	(509,095,787)	-	509,095,787	-	-
ยอดคงเหลือปลายปี 2545		**14,000,000,000**	**4,750,000,000**	**7,798,721,071**	**138,398,377**	**1,541,881,364**	**125,066,583**	**28,354,067,395**
กำไรที่ยังไม่เกิดขึ้น		-	-	-	315,926,445	-	-	315,926,445
บวก กำไรสุทธิ		-	-	12,453,499,276	-	-	41,375,933	12,494,875,209
หัก เงินปันผลจ่าย		-	-	(2,100,000,000)	-	-	(10,125,000)	(2,110,125,000)
หัก สำรองตามกฎหมาย	3.17	-	-	(158,118,636)	-	158,118,636	-	-
ยอดคงเหลือปลายปี 2546		**14,000,000,000**	**4,750,000,000**	**17,994,101,711**	**454,324,822**	**1,700,000,000**	**156,317,516**	**39,054,744,049**

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย
งบแสดงการเปลี่ยนแปลงส่วนของผู้ถือหุ้น
สำหรับปีสิ้นสุดวันที่ 30 กันยายน 2546 และ 2545

หน่วย : บาท

	หมายเหตุ	งบการเงินเฉพาะบริษัท					
		ทุนเรือนหุ้นที่ออกและชำระแล้ว	ส่วนเกินมูลค่าหุ้น	กำไร(ขาดทุน) สะสม (ปรับปรุงใหม่)	กำไรที่ยังไม่เกิดขึ้น	สำรองตามกฎหมาย	รวม
ยอดคงเหลือต้นปี 2545		14,000,000,000	4,750,000,000	(7,255,268,487)	-	1,032,785,577	12,527,517,090
- ปรับปรุงบันทึกค่าลดหย่อนทางภาษี จากผลขาดทุนจากอัตราแลกเปลี่ยน เงินตราต่างประเทศ		-	-	5,381,169,610	-	-	5,381,169,610
ยอดคงเหลือที่ปรับปรุงแล้ว		14,000,000,000	4,750,000,000	(1,874,098,877)	-	1,032,785,577	17,908,686,700
กำไรที่ยังไม่เกิดขึ้น		-	-	-	138,398,377	-	138,398,377
บวก กำไรสุทธิ		-	-	10,181,915,735	-	-	10,181,915,735
หัก สำรองตามกฎหมาย		-	-	(509,095,787)	-	509,095,787	-
ยอดคงเหลือปลายปี 2545		**14,000,000,000**	**4,750,000,000**	**7,798,721,071**	**138,398,377**	**1,541,881,364**	**28,229,000,812**
กำไรที่ยังไม่เกิดขึ้น		-	-	-	315,926,445	-	315,926,445
บวก กำไรสุทธิ		-	-	12,453,499,276	-	-	12,453,499,276
หัก เงินปันผลจ่าย		-	-	(2,100,000,000)	-	-	(2,100,000,000)
หัก สำรองตามกฎหมาย	3.17	-	-	(158,118,636)	-	158,118,636	-
ยอดคงเหลือปลายปี 2546		**14,000,000,000**	**4,750,000,000**	**17,994,101,711**	**454,324,822**	**1,700,000,000**	**38,898,426,533**

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย

งบกระแสเงินสด

สำหรับปีสิ้นสุดวันที่ 30 กันยายน 2546 และ 2545

หน่วย : บาท

	งบการเงินรวม		งบการเงินเฉพาะบริษัท	
	2546	**2545**	**2546**	**2545**
กระแสเงินสดจากกิจกรรมดำเนินงาน				
กำไรสุทธิ	12,453,499,276	10,181,915,735	12,453,499,276	10,181,915,735
รายการปรับกระทบยอดกำไรสุทธิเป็นเงินสดรับ(จ่าย)				
จากกิจกรรมดำเนินงาน :				
ค่าเสื่อมราคา	10,946,322,968	10,379,126,745	10,921,770,615	10,363,658,919
รายได้จากเงินลงทุนตามวิธีส่วนได้เสีย	(165,599,050)	(171,088,605)	(216,656,050)	(208,146,880)
ขาดทุนจากการจำหน่ายสินทรัพย์	140,726,743	437,556,538	140,726,743	437,556,538
ค่าใช้จ่ายตัดบัญชี	9,964,302	-	9,964,302	-
ผลกำไรจากอัตราแลกเปลี่ยนเงินตรา	(3,194,078,774)	(2,378,888,328)	(3,194,078,774)	(2,378,888,328)
กำไรสุทธิในส่วนของผู้ถือหุ้นส่วนน้อย	41,375,933	29,925,620	-	-
สำรองสินค้าและพัสดุเสื่อมสภาพ	194,064,576	185,442,747	194,064,576	185,442,747
ค่าเผื่อหนี้สูญ ด้อยค่าของสินทรัพย์	(100,147,637)	553,844,325	(101,346,882)	551,843,707
กำไรจากการดำเนินงานก่อนการเปลี่ยนแปลงใน				
สินทรัพย์และหนี้สินดำเนินงาน	20,326,128,337	19,217,834,777	20,207,943,806	19,133,382,438
สินทรัพย์ดำเนินงานลดลง(เพิ่มขึ้น)				
ลูกหนี้การค้า	782,256,225	(2,355,098,341)	832,192,926	(2,354,652,392)
สินค้าและพัสดุคงเหลือ	(299,961,909)	(106,297,591)	(299,961,909)	(106,297,591)
ค่าใช้จ่ายจ่ายล่วงหน้าและเงินมัดจำ	(589,249,153)	321,687,301	(589,213,750)	321,861,921
ภาษีเงินได้รอเรียกคืน	-	2,785,459,667	-	2,785,459,667
สินทรัพย์หมุนเวียนอื่น	608,098,719	1,871,713,191	499,157,033	1,928,298,709
ภาษีเงินได้รอตัดจ่าย	1,149,879,843	511,381,616	1,150,949,116	515,093,221
ค่าใช้จ่ายรอการตัดบัญชี	(355,874,908)	-	(355,874,908)	-
ค่าสิทธิประโยชน์รอโอนจากการซื้อเครื่องบิน	(43,386,680)	646,782,388	(43,386,680)	646,782,388
หนี้สินดำเนินงานเพิ่มขึ้น(ลดลง)				
เจ้าหนี้การค้า	861,855,632	749,764,450	857,555,352	749,437,940
ค่าใช้จ่ายค้างจ่ายและหนี้สินหมุนเวียนอื่น	547,134,842	665,502,994	534,454,688	658,782,061
กองทุนบำเหน็จพนักงาน	276,581,275	45,887,277	276,581,275	45,887,277
รายรับด้านขนส่งที่ยังไม่ถือเป็นรายได้	16,644,736	1,208,737,586	16,644,736	1,208,737,586
เงินสดสุทธิได้มาจากกิจกรรมดำเนินงาน	**23,280,106,959**	**25,563,355,315**	**23,087,041,685**	**25,532,773,225**

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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บริษัท การบินไทย จำกัด (มหาชน) และบริษัทย่อย

งบกระแสเงินสด

สำหรับปีสิ้นสุดวันที่ 30 กันยายน 2546 และ 2545

หน่วย : บาท

	งบการเงินรวม		งบการเงินเฉพาะบริษัท	
	2546	2545	2546	2545
กระแสเงินสดจากกิจกรรมลงทุน				
เงินฝากประจำธนาคารซึ่งมีกำหนดจ่ายคืน				
เกินกว่า 3 เดือนลดลง(เพิ่มขึ้น)	(2,634,762,397)	753,411,148	(2,634,762,397)	753,411,148
เงินสดจ่ายซื้อสินทรัพย์ถาวร	(4,583,824,732)	(4,693,690,403)	(4,538,731,835)	(4,652,394,649)
เงินสดจ่ายค่าเครื่องบินจ่ายล่วงหน้า	(5,106,100,768)	-	(5,106,100,768)	-
เงินสดรับจากการจำหน่ายสินทรัพย์	156,310,790	299,248,132	156,310,790	299,248,132
เงินลงทุน	149,292,025	188,416,328	161,667,025	196,666,328
เงินให้กู้เพื่อลงทุนในการซื้ออะไหล่เครื่องบิน	3,276,000	-	3,276,000	-
เงินสดสุทธิใช้ไปในกิจกรรมลงทุน	**(12,015,809,082)**	**(3,452,614,795)**	**(11,958,341,185)**	**(3,403,069,041)**
กระแสเงินสดจากกิจกรรมจัดหาเงิน				
รับจากเงินกู้ระยะสั้น	4,290,000,000	4,430,000,000	4,290,000,000	4,430,000,000
รับจากเงินกู้ระยะยาว	9,594,036,699	8,210,310,000	9,594,036,699	8,210,310,000
เงินสดจ่ายชำระคืนหนี้สินระยะสั้น	(12,175,240,000)	(1,700,000,000)	(12,175,240,000)	(1,700,000,000)
เงินสดจ่ายชำระคืนหนี้สินระยะยาว	(20,297,052,007)	(20,192,596,023)	(20,297,052,007)	(20,192,596,023)
เงินสดจ่ายชำระคืนตั๋วสัญญาใช้เงิน	(1,050,000,000)	(1,050,000,000)	(1,050,000,000)	(1,050,000,000)
เงินปันผลจ่าย	(2,102,833,912)	(6,825,480)	(2,092,708,912)	(49,230)
เงินสดสุทธิใช้ไปในกิจกรรมจัดหาเงิน	**(21,741,089,220)**	**(10,309,111,503)**	**(21,730,964,220)**	**(10,302,335,253)**
เงินสดและรายการเทียบเท่าเงินสดเพิ่มขึ้น(ลดลง)	(10,476,791,343)	11,801,629,017	(10,602,263,720)	11,827,368,931
ผลกระทบจากการเปลี่ยนแปลงอัตราแลกเปลี่ยนของเงินสด				
และเงินฝากธนาคารลดลง	(434,836,286)	287,868,350	(434,836,286)	287,868,350
เงินสดและรายการเทียบเท่าเงินสด - ณ วันต้นปี	20,117,223,571	8,027,726,204	19,889,254,758	7,774,017,477
เงินสดและรายการเทียบเท่าเงินสด - ณ วันสิ้นปี	**9,205,595,942**	**20,117,223,571**	**8,852,154,752**	**19,889,254,758**
ข้อมูลเพิ่มเติมประกอบกระแสเงินสด				
เงินสดจ่ายในระหว่างงวด				
ดอกเบี้ยจ่าย	4,396,450,305	6,126,349,384	4,396,450,305	6,126,349,384
ภาษีเงินได้	4,913,479,280	1,814,256,045	4,880,656,782	1,764,217,288
รายการที่ไม่ใช่เงินสด				
สินทรัพย์ตามสัญญาเช่าการเงิน	13,670,675,182	-	13,670,675,182	-

หมายเหตุประกอบงบการเงินเป็นส่วนหนึ่งของงบการเงินนี้

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ภาคผนวก ข

ตัวอย่างงบการเงินที่ปฏิบัติตามหลักการบัญชีที่รับรองทั่วไปของประเทศสหราชอาณาจักร

(ไม่รวมหมายเหตุประกอบงบการเงิน)

British Airways Plc

(BAY)

เป็นบริษัทจดทะเบียนในตลาดหลักทรัพย์ลอนดอน (London Stock Exchange: LSE) ประเทศสหราชอาณาจักร โดยจัดอยู่ในกลุ่มขนส่ง กลุ่มย่อยสายการบินและท่าอากาศยาน ใช้อักษรย่อ "BAY" ประกอบธุรกิจสายการบินพาณิชย์ (British Airways) และยังเป็นบริษัทจดทะเบียนในตลาดหลักทรัพย์นิวยอร์ค ประเทศสหรัฐอเมริกาด้วย โดยจัดอยู่ในอุตสาหกรรมสายการบิน ใช้อักษรย่อ "BAB"— ดูรายละเอียดเกี่ยวกับบริษัทและงบการเงินเพิ่มเติมได้ที่ http://www.britishairways.com

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British Airways Plc

Group profit and loss account

For the year ended March 31, 2004

£ million	Note	Group 2004	2003
Turnover	2	7,560	*7,688*
Cost of sales	4	(7,008)	*(7,263)*
Gross profit		552	*425*
Administrative expenses	4	(147)	*(130)*
Operating profit		405	*295*
Share of operating profit in associates	7	58	*39*
Total operating profit including associates		463	*334*
Other income and charges	8	13	*(4)*
(Loss)/profit on sale of fixed assets and investments	9	(46)	*60*
Net interest payable	10	(200)	*(255)*
Profit before tax		230	*135*
Tax	11a	(85)	*(50)*
Profit after tax		145	*85*
Equity minority interest		(1)	
Non equity minority interest	38	(14)	*(13)*
Profit for the year		130	*72*
Retained profit for the year	33a	130	*72*
Earnings per share	12		
Basic earnings per share		12.1p	*6.7p*
Diluted earnings per share		12.1p	*6.7p*

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British Airways Plc

Balance sheets

At March 31, 2004

£ million	Note	Group 2004	Group *2003*	Company 2004	Company *2003*
Fixed assets					
Intangible assets	13				
Goodwill		93	*99*		
Landing Rights		75	*65*	75	*65*
		168	*164*	75	*65*
Tangible assets	14				
Fleet		7,104	*7,828*	6,727	*7,548*
Property		1,042	*1,219*	968	*1,144*
Equipment		491	*440*	411	*343*
		8,637	*9,487*	8,106	*9,035*
Investments	17				
Subsidiary undertakings and quasi-subsidiary				1,194	*1,208*
Associated undertakings		501	*461*	29	*33*
Trade investments		30	*32*	29	*31*
Investment in own shares		31	*31*	31	*31*
		562	*524*	1,283	*1,303*
		9,367	*10,175*	9,464	*10,403*
Current assets					
Stocks	22	76	*87*	66	*69*
Debtors	23	1,019	*986*	1,122	*923*
Short-term loans and deposits	24b	1,606	*1,430*	1,558	*1,374*
Cash at bank and in hand	24b	64	*222*	35	*194*
		2,765	*2,725*	2,781	*2,560*
Creditors: amounts falling due within one year	25	(2,996)	*(2,904)*	(3,599)	*(3,452)*
Net current liabilities		(231)	*(179)*	(818)	*(892)*
Total assets less current liabilities		9,136	*9,996*	8,646	*9,511*
Creditors: amounts falling due after more than one year					
Borrowings and other creditors	26	(5,374)	*(6,441)*	(5,451)	*(6,483)*
Convertible Capital Bonds 2005	36	(112)	*(112)*		
		(5,486)	*(6,553)*	(5,451)	*(6,483)*
Provision for deferred tax	29	(1,137)	*(1,062)*	(1,106)	*(1,025)*
Provisions for liabilities and charges	30	(85)	*(107)*	(58)	*(80)*
		2,428	*2,274*	2,031	*1,923*
Capital and reserves					
Called up share capital	31	271	*271*	271	*271*
Reserves	33				
Share premium account		788	*788*	788	*788*
Revaluation reserve		262	*270*	262	*270*
Profit and loss account		897	*729*	710	*594*
		1,947	*1,787*	1,760	*1,652*
Total equity shareholders' funds		2,218	*2,058*	2,031	*1,923*

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Minority interest					
Equity minority interest		10	*10*		
Non equity minority interest	38	200	*206*		
		210	*216*	0	*0*
		2,428	*2,274*	2,031	*1,923*

British Airways Plc

Group cash flow statement

For the year ended March 31, 2004

£ million	Note	Group 2004	*2003*
Cash inflow from operating activities	5a	1,093	*1,185*
Dividends received from associates		25	*23*
Returns on investments and servicing of finance			
Interest received		62	*72*
Interest paid on bank and other loans		(83)	*(86)*
Interest paid on finance leases and hire purchase arrangements		(182)	*(222)*
Lease transfer consent fees		7	
Dividends received from trade investments		1	
Non equity minority interest		(14)	*(13)*
Net cash outflow from returns on investments and servicing of finance		(209)	*(249)*
Tax			
Overseas tax		(4)	*(7)*
Capital expenditure and financial investment			
Intangible assets purchased for cash		(14)	*(32)*
Tangible fixed assets purchased for cash	14e	(198)	*(293)*
Refund of progress payments		42	*230*
Sale of tangible fixed assets and investments		212	*351*
Investment in own shares			*(6)*
Net cash inflow for capital expenditure and financial investment		42	*250*
Acquisitions and disposals			
Sale of interests in subsidiary undertakings		(80)	*30*
Sale of interests in associated undertakings		7	*12*
Purchase of interests in other associated undertakings			*(13)*
Net cash (outflow)/inflow for acquisitions and disposals		(73)	*29*
Net cash inflow before management of liquid resources and financing		874	*1,231*
Management of liquid resources		(198)	*(289)*
Financing			
Changes in borrowings			
Bank and other loans raised		81	*13*
Bank and other loans repaid		(339)	*(189)*
Capital elements of finance leases and hire purchase arrangements repaid		(576)	*(608)*
		(834)	*(784)*

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(Decrease)/increase in cash	24	(158)	*158*

British Airways Plc
Statement of total recognised gains and losses

For the year ended March 31, 2004

£ million	Note	Group 2004	*2003*
Profit for the year		130	*72*
Other recognised gains and losses relating to the year:			
Exchange and other movements	33a	16	*(38)*
Total recognised gains and losses relating to the year		146	*34*

Reconciliation of movements in shareholders' funds

For the year ended March 31, 2004

£ million	Note	Group 2004	*2003*
Profit for the year		130	*72*
Other recognised gains and losses relating to the year:			
Exchange and other movements	33a	16	*(38)*
Goodwill transferred to the profit and loss account in respect of disposals	33a	14	*8*
Net increase to shareholders' funds		160	*42*
Equity shareholders' funds at April 1		2,058	*2,016*
Equity shareholders' funds at March 31		2,218	*2,058*

The difference between reported and historical cost profits and losses is not material.

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ภาคผนวก ค

ตัวอย่างงบการเงินที่ปฏิบัติตามหลักการบัญชีที่รับรองทั่วไปของประเทศสหรัฐอเมริกา

(ไม่รวมหมายเหตุประกอบงบการเงิน)

AMR Corporation
(AMR)

เป็นบริษัทจดทะเบียนในตลาดหลักทรัพย์นิวยอร์ค (New York Stock Exchange: NYSE) ประเทศสหรัฐอเมริกา จัดอยู่ในกลุ่มสายการบิน ประกอบกิจการสายการบินพาณิชย์ โดยเป็นบริษัทแม่ของ American Airlines, Inc. และ American Eagle Airlines, Inc. — ดูรายละเอียดเกี่ยวกับบริษัทและงบการเงินเพิ่มเติมได้ที่ http://www. amrcorp.com

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AMR CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share amounts)

	Year Ended December 31,		
	2003	2002	2001
Revenues			
Passenger - American Airlines	$ 14,332	$ 14,440	$ 15,780
Passenger - Regional Affiliates	1,519	1,431	1,428
Cargo	558	561	662
Other revenues	1,031	988	1,099
Total operating revenues	17,440	17,420	18,969
Expenses			
Wages, salaries and benefits	7,264	8,392	8,032
Aircraft fuel	2,772	2,562	2,888
Depreciation and amortization	1,377	1,366	1,404
Other rentals and landing fees	1,173	1,198	1,197
Commissions, booking fees and credit card expense	1,063	1,163	1,540
Maintenance, materials and repairs	860	1,108	1,165
Aircraft rentals	687	840	829
Food service	611	698	778
Other operating expenses	2,428	2,715	2,996
Special charges	407	718	1,466
U.S. government grant	(358)	(10)	(856)
Total operating expenses	18,284	20,750	21,439
Operating Loss	(844)	(3,330)	(2,470)
Other Income (Expense)			
Interest income	55	71	110
Interest expense	(703)	(685)	(538)
Interest capitalized	71	86	144
Miscellaneous - net	113	(2)	(2)
	(464)	(530)	(286)
Loss Before Income Taxes and Cumulative Effect of Accounting Change	(1,308)	(3,860)	(2,756)
Income tax benefit	(80)	(1,337)	(994)
Loss Before Income Cumulative Effect of Accounting Change	(1,228)	(2,523)	(1,762)
Cumulative Effect of Accounting Change, Net of Applicable Income Taxes	-	(988)	-
Net Loss	$ (1,228)	$ (3,511)	$ (1,762)
Loss Per Share:			
Basic and Diluted			
Loss before cumulative effect of accounting change	$ (7.76)	$ (16.22)	$ (11.43)
Cumulative effect of accounting change	-	(6.35)	-

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Net loss	$ (7.76)	$ (22.57)	$ (11.43)

The accompanying notes are an integral part of these financial statements.

AMR CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except shares and par value)

	December 31,	
	2003	2002
Assets		
Cash	$ 120	$ 104
Short-term investments	2,486	1,846
Restricted cash and short-term investments	527	783
Receivables, less allowance for uncollectible		
account (2003 - $62; 2002 - $66)	796	909
Income tax receivable	-	572
Inventories, less allowance for obsolescence		
(2003 - $428; 2002 - $450)	516	627
Other current assets	237	96
Total current assets	4,682	4,937
Equipment and Property		
Flight equipment, at cost	21,366	21,158
Less accumulated depreciation	6,047	6,117
	15,319	15,041
Purchase deposits for flight equipment	359	767
Other equipment and property, at cost	4,820	4,738
Less accumulated depreciation	2,409	2,288
	2,411	2,450
	18,089	18,258
Equipment and Property Under Capital Leases		
Flight equipment	2,291	2,245
Other equipment and property	167	165
	2,458	2,410
Less accumulated amortization	1,087	974
	1,371	1,436
Other Assets		
Route acquisition costs and airport operating and gate lease right, less		
accumulated amortization (2003 - $284; 2002 - $257)	1,253	1,292
Other	3,935	4,344
	5,188	5,636
Total Assets	$ 29,330	$ 30,267

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The accompanying notes are an integral part of these financial statements.

AMR CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except shares and par value)

	December 31,	
	2003	2002
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 967	$ 1,198
Accrued salaries and wages	528	705
Accrued liabilities	1,461	1,855
Air traffic liability	2,799	2,614
Current maturities of long-term debt	603	713
Current obligations under capital leases	201	155
Total current liabilities	6,559	7,240
Long-term Debt, Less Current Maturities	11,901	10,888
Obligations Under Capital Leases, Less Current Obligations	1,225	1,422
Other Liabilities and Credits		
Deferred gains	520	487
Pension and postretirement benefits	4,803	4,730
Other liabilities and deferred credits	4,276	4,543
	9,599	9,760
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock - 20,000,000 shares authorized; None issued	-	-
Common stock - $1 par value; 750,000,000 shares authorized; 182,350,259 shares issued	182	182
Additional paid-in capital	2,605	2,795
Treasury shares at cost: 2003 - 22,768,027; 2002 - 26,260,620	(1,405)	(1,621)
Accumulated other comprehensive loss	(785)	(1,076)
Retained (deficit) earnings	(551)	(677)
	46	957

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Total Liabilities and Stockholders' Equity	$ 29,330	$ 30,267

The accompanying notes are an integral part of these financial statements.

AMR CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Year Ended December 31,		
	2003	2002	2001
Cash flow from Operating Activities:			
Net Loss	$ (1,228)	$ (3,511)	$ (1,762)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation	1,222	1,210	1,122
Amortization	155	156	282
Provisions for asset impairments and special charges	190	463	1,214
Goodwill impairment	-	988	-
Gain on sale of investments	(154)	-	-
Deferred income taxes	-	(845)	(731)
Additional tax refunds due to tax law change	-	371	-
Redemption payments under operating leases for special facility revenue bonds	(521)	-	-
Change in assets and liabilities:			
Decrease (increase) in receivables	690	(66)	120
Decrease (increase) in inventories	56	48	(39)
Increase (decrease) in accounts payable and accrued liabilities	(198)	(32)	379
Increase (decrease) in air traffic liability	184	(154)	(276)
Increase in other liabilities and deferred credits	245	188	165
Other, net	(40)	73	68
Net cash provided (used) by operating activities	601	(1,111)	542
Cash flow from Investing Activities:			
Capital expenditures. Including purchase deposits on flight equipment	(680)	(1,881)	(3,640)
Acquisition of Trans World Airlines, Inc.	-	-	(742)
Net (increase) decrease in short-term investments	(640)	540	(242)
Net decrease (increase) in restricted cash and short-term investments	256	(248)	(535)
Proceeds from sale of equipment and property and other investments	395	220	401
Other	24	(24)	18
Net cash used for investing activities	(645)	(1,393)	(4,740)
Cash flow from Financing Activities:			
Payments on long-term debt and capital lease obligations	(886)	(687)	(922)
Proceeds from:			
Issuance of long-term debt	945	3,099	4,744
Sale-leaseback transactions	-	91	352
Exercise of stock options	1	3	37
Net cash used for investing activities	60	2,506	4,211

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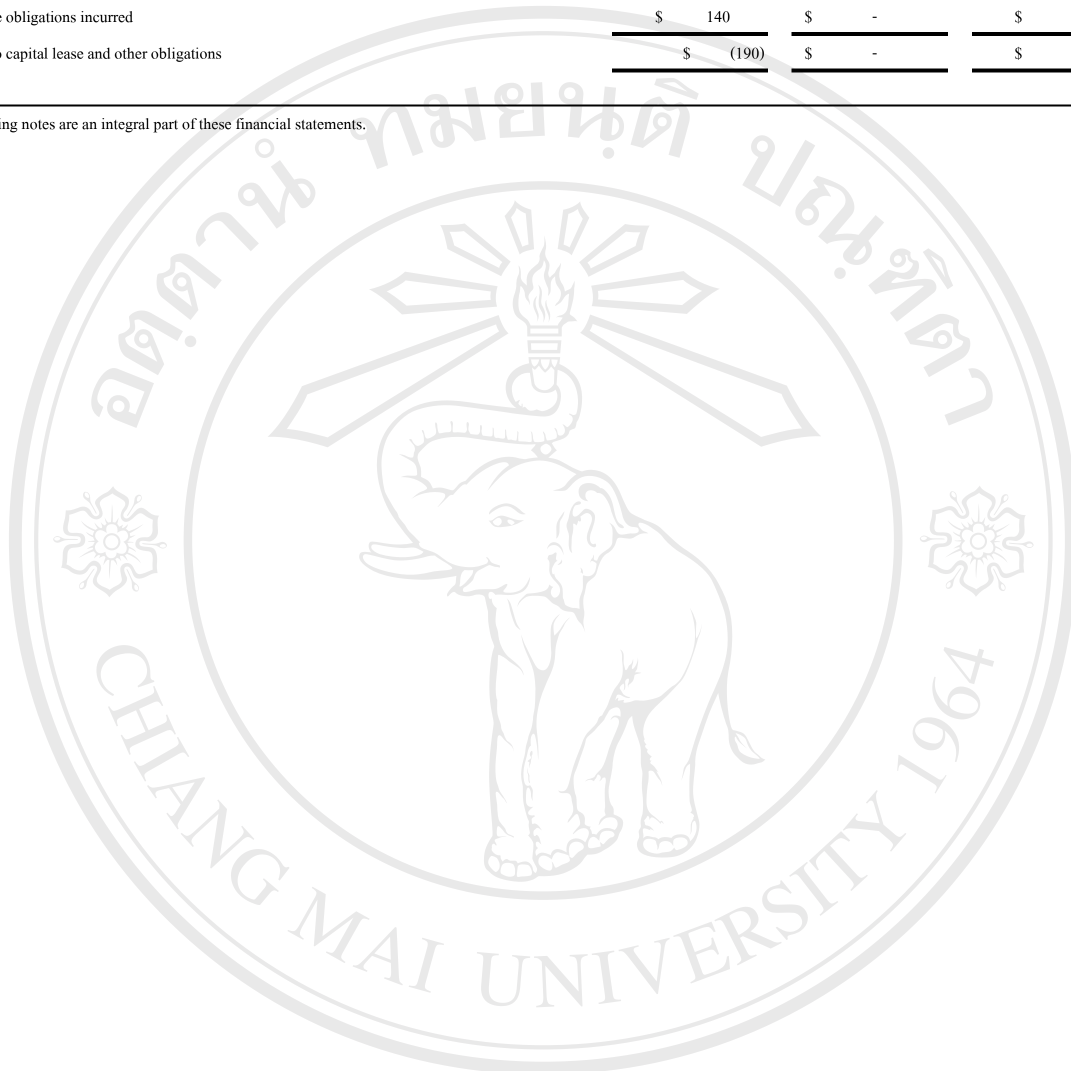
Net increase in cash	16	2	13
Cash at beginning of year	104	102	89
Cash at end of year	$ 120	$ 104	$ 102

Activities Not Affecting Cash

Flight equipment acquired through seller financing	$ 735	$ -	$ -
Capital lease obligations incurred	$ 140	$ -	$ -
Reduction to capital lease and other obligations	$ (190)	$ -	$ -

The accompanying notes are an integral part of these financial statements.



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AMR CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions, except share amounts)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at January 1, 2001	$ 182	$ 2,911	$ (1,865)	$ (2)	$ 5,950	$ 7,176
Net loss	-	-	-	-	(1,762)	(1,762)
Adjustment for minimum pension liability	-	-	-	(161)	-	(161)
Changes in fair value of derivative financial instruments	-	-	-	(75)	-	(75)
Unreslized gain on investments	-	-	-	5	-	5
Income tax effect	-	-	-	87	-	87
Total comprehensive loss						(1,906)
Issuance of 2,421,838 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax of $58	-	(46)	149	-	-	103
Balance at December 31, 2001	182	2,865	(1,716)	(146)	4,188	5,373
Net loss	-	-	-	-	(3,511)	(3,511)
Adjustment for minimum pension liability	-	-	-	(1,122)	-	(1,122)
Changes in fair value of derivative financial instruments	-	-	-	143	-	143
Unreslized loss on investments	-	-	-	(6)	-	(6)
Income tax effect	-	-	-	55	-	55
Total comprehensive loss						(4,441)
Issuance of 1,533,760 shares from Treasury pursuant to stock option, deferred stock and restricted stock incentive plans, net of tax of $52	-	(70)	95	-	-	25
Balance at December 31, 2002	182	2,795	(1,621)	(1,076)	677	957
Net loss	-	-	-	-	(1,228)	(1,228)
Adjustment for minimum pension liability	-	-	-	337	-	337
Changes in fair value of derivative financial instruments	-	-	-	(43)	-	(43)
Unreslized loss on investments	-	-	-	(3)	-	(3)
Income tax effect	-	-	-	-	-	-
Total comprehensive loss						(937)
Issuance of 3,492,593 shares from Treasury vendors and employees pursuant to stock option and deferred stock incentive plans	-	(190)	216	-	-	26
Balance at December 31, 2003	$ 182	$ 2,605	$ (1,405)	$ (785)	$ (551)	$ 46

The accompanying notes are an integral part of these financial statements.

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IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions	1990
IAS 31 Financial Reporting of Interests In Joint Ventures	Dec. 2003
IAS 32 Financial Instruments: Disclosures and Presentation	Dec. 2003
IAS 33 Earnings Per Share	Dec. 2003
IAS 34 Interim Financial Reporting	1998
IAS 35 Discontinuing Operations	1998
IAS 36 Impairment of Assets	1998
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1998
IAS 38 Intangible Assets	1997
IAS 39 Financial Instruments: Recognition and Measurement	Dec. 2003
IAS 40 Investment Property	Dec. 2003
IAS 41 Agriculture	2001

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ภาคผนวก ง

แม่บทการบัญชีของประเทศไทย

แม่บทการบัญชีสำหรับการจัดทำและนำเสนองบการเงิน

(เป็นไปตามเกณฑ์ที่กำหนดของ IASB Framework หรือ

Framework for the Preparation and Presentation of Financial Statements)

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แม่บทการบัญชีสำหรับการจัดทำและนำเสนองบการเงิน

(ยกเลิกมาตรฐานการบัญชี ฉบับที่ 1 และให้ใช้แม่บทการบัญชีฉบับนี้แทนตั้งแต่วันที่ 25 กุมภาพันธ์ 2542)

....

คำนำ

งบการเงินที่กิจการต่าง ๆ ในประเทศจัดทำขึ้นเพื่อนำเสนอต่อผู้ใช้งบการเงินที่เป็นบุคคลภายนอก อาจมีความแตกต่างจากงบการเงินของประเทศอื่นเนื่องจากสภาพแวดล้อมทางสังคมเศรษฐกิจและกฎหมายที่แตกต่างกัน คณะกรรมการมาตรฐานการบัญชีพยายามลดความแตกต่างนี้ โดยการจัดทำแม่บทการบัญชีสำหรับการจัดทำและนำเสนองบการเงินเพื่อถือเป็นเกณฑ์ในการกำหนดมาตรฐานการบัญชีและการปฏิบัติทางบัญชีที่สากลยอมรับ

แม่บทการบัญชีได้กำหนดเกณฑ์สำหรับการจัดทำและนำเสนองบการเงินในเรื่องเกี่ยวกับวัตถุประสงค์ กลุ่มผู้ใช้งบการเงิน ลักษณะเชิงคุณภาพของงบการเงิน องค์ประกอบของงบการเงินและคำนิยามขององค์ประกอบนั้น รวมถึงเกณฑ์การรับรู้รายการในงบดุล งบกำไรขาดทุน การวัดมูลค่าของรายการและแนวคิดเกี่ยวกับทุนและการรักษาระดับทุนที่ใช้วัดผลกำไรในงบการเงิน

คณะกรรมการมาตรฐานการบัญชีมีความประสงค์ที่จะใช้แม่บทการบัญชีเป็นเกณฑ์ในการปรับปรุงมาตรฐานการบัญชีที่มีอยู่ในปัจจุบันและพัฒนามาตรฐานการบัญชีที่จะใช้ในอนาคตให้สอดคล้องกันและสอดคล้องกับมาตรฐานการบัญชีระหว่างประเทศ อีกทั้งยังมีความประสงค์ให้ผู้จัดทำและผู้ใช้งบการเงินเข้าใจถึงที่มาและเนื้อหาของมาตรฐานการบัญชีได้ลึกซึ้งยิ่งขึ้นเพื่อสามารถนำไปใช้อ้างอิงในการนำมาตรฐานการบัญชีที่มีอยู่มาปฏิบัติและการปฏิบัติทางบัญชีในเรื่องที่ยังไม่มีมาตรฐานการบัญชีกำหนด

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แม่บทการบัญชี

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ความนำ

วัตถุประสงค์และสถานภาพ

1. แม่บทการบัญชีนี้กำหนดขึ้นเพื่อวางแนวคิดที่เป็นพื้นฐานในการจัดทำและนำเสนองบการเงินแก่ผู้ใช้งบการเงินที่เป็นบุคคลภายนอก โดยมีวัตถุประสงค์เพื่อ
   1.1 เป็นแนวทางสำหรับคณะกรรมการมาตรฐานการบัญชีในการพัฒนามาตรฐานการบัญชีในอนาคต และในการทบทวนมาตรฐานการบัญชีที่มีในปัจจุบัน
   1.2 เป็นแนวทางสำหรับคณะกรรมการมาตรฐานการบัญชีในการปรับข้อกำหนดมาตรฐานและการปฏิบัติทางบัญชีที่เกี่ยวข้องกับการนำเสนองบการเงินให้สอดคล้องกันโดยถือเป็นหลักเกณฑ์ในการลดจำนวนทางเลือกของวิธีการบันทึกบัญชีที่เคยอนุญาตให้ใช้
   1.3 เป็นแนวทางสำหรับผู้จัดทำงบการเงินในการนำมาตรฐานการบัญชีมาปฏิบัติรวมทั้งเป็นแนวทางในการปฏิบัติสำหรับเรื่องที่ยังไม่มีมาตรฐานการบัญชีรองรับ
   1.4 เป็นแนวทางสำหรับผู้สอบบัญชีในการแสดงความเห็นต่องบการเงินว่าได้จัดทำขึ้นตามมาตรฐานการบัญชีหรือไม่
   1.5 ช่วยให้ผู้ใช้งบการเงินสามารถเข้าใจความหมายของข้อมูลที่แสดงในงบการเงินซึ่งจัดทำขึ้นตามมาตรฐานการบัญชี
   1.6 ให้ผู้สนใจได้ทราบข้อมูลเกี่ยวกับแนวทางในการกำหนดมาตรฐานการบัญชีของคณะกรรมการมาตรฐานการบัญชี

2. แม่บทการบัญชีนี้มิได้มีไว้เพื่อกำหนดมาตรฐานในการวัดมูลค่าหรือในการเปิดเผยข้อมูลสำหรับการบัญชีเรื่องใดเรื่องหนึ่งโดยเฉพาะ แม่บทการบัญชีจึงไม่สามารถใช้หักล้างมาตรฐานการบัญชีที่ประกาศใช้เฉพาะเรื่องได้

3. คณะกรรมการมาตรฐานการบัญชีตระหนักว่า ในบางกรณี แม่บทการบัญชีอาจมีข้อขัดแย้งกับมาตรฐานการบัญชีที่มีอยู่ ในกรณีดังกล่าว ให้ถือปฏิบัติตามมาตรฐานการบัญชีที่ประกาศใช้ อย่างไรก็ตาม คณะกรรมการมาตรฐานการบัญชีกำลังพัฒนามาตรฐานการบัญชีฉบับใหม่และปรับปรุงมาตรฐานการบัญชีที่มีอยู่ในปัจจุบันตามกรอบของแม่บทการบัญชี เพื่อให้ข้อขัดแย้งดังกล่าวค่อย ๆ หมดไปในอนาคต

4. คณะกรรมการมาตรฐานการบัญชีจะทำการปรับปรุงแม่บทการบัญชีนี้เป็นระยะ ๆ ตามประสบการณ์ที่ได้รับจากการนำแม่บทการบัญชีไปใช้

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ขอบเขต

5. แม่บทการบัญชีเกี่ยวข้องกับเรื่องต่อไปนี้
   5.1 วัตถุประสงค์ของงบการเงิน
   5.2 ลักษณะเชิงคุณภาพที่กำหนดว่าข้อมูลในงบการเงินมีประโยชน์
   5.3 คำนิยาม การรับรู้และการวัดมูลค่าขององค์ประกอบต่าง ๆ ที่ประกอบขึ้นเป็นงบการเงิน
   5.4 แนวคิดเกี่ยวกับทุนและการรักษาระดับทุน

6. แม่บทการบัญชีนี้เกี่ยวข้องกับงบการเงินและงบการเงินรวมที่จัดทำขึ้นเพื่อวัตถุประสงค์โดยทั่วไป (ต่อไปนี้เรียกรวมว่างบการเงิน) งบการเงินดังกล่าวจัดทำและนำเสนออย่างน้อยปีละหนึ่งครั้ง เพื่อสนองความต้องการข้อมูลร่วมของผู้ใช้งบการเงินทุกประเภท แม้ว่าผู้ใช้งบการเงินบางกลุ่มอาจมีสิทธิเรียกร้องหรือมีอำนาจในการได้รับข้อมูลเพิ่มเติมจากข้อมูลที่แสดงไว้ในงบการเงินแต่ผู้ใช้งบการเงินส่วนใหญ่ยังจำเป็นต้องใช้งบการเงินเป็นแหล่งข้อมูลทางการเงินที่สำคัญ ผู้จัดทำงบการเงินจึงควรตระหนักถึงความต้องการของผู้ใช้งบการเงินส่วนใหญ่ในการจัดทำและนำเสนองบการเงิน แม่บทการบัญชีนี้ไม่ครอบคลุมถึงรายงานการเงินที่มีวัตถุประสงค์เฉพาะ เช่น หนังสือชี้ชวนหรือรายงานที่จัดทำขึ้นเพื่อเสียภาษี อย่างไรก็ตาม แม่บทการบัญชีอาจนำมาประยุกต์ใช้ในการจัดทำรายงานการเงินที่มีวัตถุประสงค์เฉพาะได้ หากข้อกำหนดเอื้ออำนวย

7. งบการเงินเป็นส่วนหนึ่งของกระบวนการรายงานการเงิน งบการเงินที่สมบูรณ์ประกอบด้วย งบดุล งบกำไรขาดทุน งบแสดงการเปลี่ยนแปลงฐานะการเงิน (ซึ่งอาจจัดทำและนำเสนอได้หลายแบบ เช่น งบกระแสเงินสดหรืองบกระแสเงินทุน) หมายเหตุประกอบงบการเงิน งบประกอบอื่น และคำอธิบายที่ทำให้งบการเงินนั้นสมบูรณ์ขึ้น นอกจากนี้ งบการเงินอาจรวมรายละเอียดประกอบและข้อมูลเพิ่มเติมที่อ้างถึงหรือที่ได้มาจากงบการเงินซึ่งผู้ใช้งบการเงินคาดว่าจะได้รับ เพื่อใช้พิจารณาพร้อมกับงบการเงินนั้น ตัวอย่างรายละเอียดประกอบหรือข้อมูลเพิ่มเติมดังกล่าว ได้แก่ข้อมูลทางการเงินจำแนกตามส่วนงานทางอุตสาหกรรมหรือทางภูมิศาสตร์ และการเปิดเผยเกี่ยวกับผลกระทบจากการเปลี่ยนแปลงระดับราคา อย่างไรก็ตาม งบการเงินไม่รวมถึงรายงานของผู้บริหาร สารจากประธาน บทรายงานและการวิเคราะห์ของฝ่ายบริหาร และรายการอื่นในลักษณะเดียวกันที่อาจปรากฏในรายงานประจำปีหรือรายงานการเงิน

8. แม่บทการบัญชีนี้ให้นำมาประยุกต์ใช้กับงบการเงินของกิจการที่ประกอบพาณิชยกรรม อุตสาหกรรม และธุรกิจอื่นๆ ทั้งในภาครัฐและเอกชน กิจการเหล่านี้หมายถึง กิจการที่เสนองบการเงิน โดยที่งบการเงินดังกล่าวถือเป็นแหล่งข้อมูลหลักที่ผู้ใช้งบการเงินใช้หาข้อมูลที่เกี่ยวข้องกับกิจการ

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ผู้ใช้งบการเงินและความต้องการข้อมูล

9. ผู้ใช้งบการเงินประกอบด้วย ผู้ลงทุน (ทั้งผู้ลงทุนในปัจจุบันและผู้ที่อาจตัดสินใจลงทุนในอนาคต) ลูกจ้าง ผู้ให้กู้ ผู้ขายสินค้าและเจ้าหนี้อื่น ลูกค้า รัฐบาลและหน่วยงานราชการและสาธารณชน ผู้ใช้งบการเงินเหล่านี้ใช้งบการเงินเพื่อตอบสนองความต้องการข้อมูลที่แตกต่างกัน กล่าวคือ
   - 9.1 ผู้ลงทุน หมายถึง ผู้เป็นเจ้าของเงินทุนรวมทั้งที่ปรึกษาซึ่งต้องการทราบถึงความเสี่ยงและผลตอบแทนจากการลงทุน ผู้ลงทุนต้องการข้อมูลที่จะช่วยในการพิจารณาตัดสินใจ ซื้อ ขาย หรือถึงเงินลงทุนนั้นต่อไป นอกจากข้อมูลดังกล่าว ผู้ลงทุนที่เป็นผู้ถือหุ้นยังต้องการข้อมูลที่จะช่วยในการประเมินความสามารถของกิจการในการจ่ายเงินปันผลด้วย
   - 9.2 ลูกจ้าง หมายถึง ลูกจ้างรวมทั้งกลุ่มตัวแทนซึ่งต้องการข้อมูลเกี่ยวกับความมั่นคงและความสามารถในการทำกำไรของนายจ้าง นอกจากนั้นยังต้องการข้อมูลที่จะช่วยให้สามารถประเมินความสามารถของกิจการในการจ่ายค่าตอบแทน บำเหน็จ บำนาญ และโอกาสในการจ้างงาน
   - 9.3 ผู้ให้กู้ หมายถึง ผู้ซึ่งต้องการข้อมูลที่จะช่วยในการพิจารณาว่าเงินให้กู้ยืมและดอกเบี้ยที่เกิดขึ้นจะได้รับชำระเมื่อครบกำหนด
   - 9.4 ผู้ขายสินค้าและเจ้าหนี้อื่น หมายถึง ผู้ซึ่งต้องการข้อมูลที่จะช่วยในการตัดสินใจว่าหนี้สินจะได้รับชำระเมื่อครบกำหนด เจ้าหนี้การค้าอาจให้ความสนใจข้อมูลของกิจการในระยะเวลาที่สั้นกว่าผู้ให้กู้ นอกจากว่าการดำเนินงานของเจ้าหนี้นั้นขึ้นอยู่กับการดำเนินงานต่อเนื่องของกิจการซึ่งเป็นลูกค้ารายใหญ่
   - 9.5 ลูกค้า หมายถึง ผู้ซึ่งต้องการข้อมูลเกี่ยวกับการดำเนินงานต่อเนื่องของกิจการ โดยเฉพาะกรณีที่มีความสัมพันธ์อันยาวนานหรือต้องพึ่งพากิจการนั้น
   - 9.6 รัฐบาลหรือหน่วยงานราชการ หมายถึง หน่วยงานที่ต้องการข้อมูลเกี่ยวกับการดำเนินงานของกิจการในการจัดสรรทรัพยากร การกำกับดูแล การพิจารณากำหนดนโยบายทางภาษีและเพื่อใช้เป็นหลักฐานในการคำนวณรายได้ประชาชาติและจัดทำสถิติในด้านต่าง ๆ
   - 9.7 สาธารณชน หมายถึง ประชาชนผู้ซึ่งต้องการข้อมูลเกี่ยวกับแนวโน้มความสำเร็จและการดำเนินงานของกิจการเนื่องจากกิจการอาจก่อให้เกิดผลกระทบต่อสาธารณชนในการจ้างงานและการรับซื้อสินค้าจากผู้ผลิตในท้องถิ่น

10. แม้ว่างบการเงินไม่อาจตอบสนองความต้องการข้อมูลของผู้ใช้งบการเงินได้ทุกกลุ่ม แต่ผู้ใช้งบการเงินส่วนใหญ่ก็มีความต้องการข้อมูลบางส่วนที่มีลักษณะร่วมกัน ซึ่งงบการเงินสามารถสนองความต้องการ

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ได้ ตามปกติข้อมูลใดในงบการเงินที่สามารถตอบสนองความต้องการของผู้ลงทุนได้ ข้อมูลนั้นจะสามารถตอบสนองความต้องการของผู้ใช้งบการเงินกลุ่มอื่นได้เช่นกัน

11. ฝ่ายบริหารมีหน้าที่รับผิดชอบในการจัดทำและนำเสนองบการเงินของกิจการ ดังนั้น ฝ่ายบริหารต้องให้ความสนใจต่อข้อมูลที่แสดงไว้ในงบการเงิน อย่างไรก็ตาม แม่บทการบัญชีนี้ไม่ครอบคลุมถึงการรายงานข้อมูลเพิ่มเติมซึ่งฝ่ายบริหารสามารถกำหนดรูปแบบและเนื้อหาเพื่อช่วยในการวางแผน ตัดสินใจ และควบคุมภายในกิจการเอง

วัตถุประสงค์ของงบการเงิน

12. งบการเงินจัดทำขึ้นโดยมีวัตถุประสงค์เพื่อให้ข้อมูลเกี่ยวกับฐานะการเงิน ผลการดำเนินงานและการเปลี่ยนแปลงฐานะการเงินของกิจการ อันเป็นประโยชน์ต่อผู้ใช้งบการเงินทุกประเภทในการนำไปใช้ตัดสินใจเชิงเศรษฐกิจ

13. งบการเงินที่จัดทำขึ้นตามวัตถุประสงค์ข้างต้นสามารถตอบสนองความต้องการร่วมของผู้ใช้งบการเงินส่วนใหญ่ อย่างไรก็ตาม งบการเงินไม่ได้ให้ข้อมูลทุกประเภทที่ผู้ใช้งบการเงินต้องการในการตัดสินใจเชิงเศรษฐกิจเนื่องจากข้อมูลส่วนใหญ่ที่แสดงในงบการเงินแสดงถึงผลกระทบทางการเงินจากเหตุการณ์ในอดีต แต่งบการเงินไม่จำเป็นต้องแสดงข้อมูลที่มิใช่ข้อมูลทางการเงิน

14. งบการเงินแสดงผลการบริหารงานของฝ่ายบริหารหรือความรับผิดชอบของฝ่ายบริหารในการบริหารทรัพยากรของกิจการ ผู้ใช้งบการเงินสามารถประเมินผลการบริหารงานหรือความรับผิดชอบของฝ่ายบริหารเพื่อใช้ในการตัดสินใจเชิงเศรษฐกิจ ซึ่งการตัดสินใจเชิงเศรษฐกิจนี้อาจรวมถึงการตัดสินใจขายหรือถือเงินลงทุนในกิจการต่อไป หรือการตัดสินใจโยกย้ายหรือเปลี่ยนผู้บริหาร

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ฐานะการเงิน ผลการดำเนินงานและการเปลี่ยนแปลงฐานะการเงิน

15. ในการตัดสินใจเชิงเศรษฐกิจ ผู้ใช้งบการเงินต้องประเมินความสามารถของกิจการในการก่อให้เกิดเงินสดและรายการเทียบเท่าเงินสด รวมถึงจังหวะเวลาและความแน่นอนของการก่อให้เกิดเงินสดนั้น ความสามารถในการก่อให้เกิดเงินสดและรายการเทียบเท่าเงินสดชี้ให้เห็นถึงความสามารถของกิจการในการจ่ายเงินให้แก่ลูกจ้างและผู้ขายสินค้า การจ่ายดอกเบี้ย การจ่ายคืนเงินกู้ และการแบ่งปันส่วนทุนให้กับเจ้าของ ผู้ใช้งบการเงินจะประเมินความสามารถของกิจการในการก่อให้เกิดเงินสดและรายการ

เทียบเท่าเงินสดได้ดีขึ้น หากผู้ใช้งบการเงินได้รับข้อมูลที่มุ่งเน้นถึงฐานะการเงิน ผลการดำเนินงาน และการเปลี่ยนแปลงฐานะการเงินของกิจการ

16. ทรัพยากรทางเศรษฐกิจที่กิจการควบคุมอยู่ โครงสร้างทางการเงิน สภาพคล่อง ความสามารถในการชำระหนี้ และความสามารถในการปรับตัวเข้ากับสภาพแวดล้อมที่เปลี่ยนไป ล้วนมีผลกระทบต่อฐานะการเงินของกิจการ ข้อมูลเกี่ยวกับทรัพยากรทางเศรษฐกิจและความสามารถในอดีตของกิจการในการใช้ทรัพยากรดังกล่าวเป็นประโยชน์ต่อการคาดคะเนความสามารถของกิจการที่จะก่อให้เกิดเงินสดและรายการเทียบเท่าเงินสดในอนาคต ข้อมูลเกี่ยวกับโครงสร้างทางการเงินเป็นประโยชน์ต่อการคาดคะเนความต้องการเงินกู้และความสำเร็จในการจัดหาเงินของกิจการ รวมทั้งความสามารถของกิจการในการแบ่งปันกำไรและกระแสเงินสดในอนาคตให้กับผู้มีส่วนได้เสีย ข้อมูลเกี่ยวกับสภาพคล่องและความสามารถในการชำระหนี้เป็นประโยชน์ต่อการประเมินความสามารถของกิจการในการชำระภาระผูกพันทางการเงินเมื่อครบกำหนด สภาพคล่องในที่นี้ หมายถึง เงินสดที่กิจการมีอยู่หรือสามารถจัดหามาได้ในอนาคตอันใกล้สุทธิจากภาระผูกพัน และความสามารถในการชำระหนี้ หมายถึง เงินสดที่กิจการมีอยู่หรือสามารถจัดหามาได้ในช่วงเวลาที่ยาวนานขึ้นเพื่อชำระภาระผูกพันทางการเงินที่จะครบกำหนดในอนาคต

17. ข้อมูลเกี่ยวกับผลการดำเนินงานและความแปรผันของผลการดำเนินงานของกิจการเป็นสิ่งจำเป็น และมีความสำคัญต่อการประเมินการเปลี่ยนแปลงในอนาคตที่อาจเกิดขึ้นกับทรัพยากรทางเศรษฐกิจที่อยู่ในความควบคุมของกิจการ โดยเฉพาะเรื่องความสามารถในการทำกำไร ข้อมูลดังกล่าวเป็นประโยชน์ต่อผู้ใช้งบการเงินในการคาดคะเนความสามารถของกิจการในการก่อให้เกิดกระแสเงินสดจากทรัพยากรที่มีอยู่ และในการพิจารณาประสิทธิผลของกิจการในการจัดหาทรัพยากรเพิ่มเติม

18. ข้อมูลเกี่ยวกับการเปลี่ยนแปลงฐานะการเงินของกิจการเป็นประโยชน์ต่อการประเมินกิจกรรมการดำเนินงาน กิจกรรมการลงทุน กิจกรรมการจัดหาเงินในรอบระยะเวลาที่เสนอรายงาน ข้อมูลดังกล่าวเป็นประโยชน์ต่อผู้ใช้งบการเงินในการประเมินความสามารถของกิจการในการก่อให้เกิดเงินสดและรายการเทียบเท่าเงินสด ตลอดจนความจำเป็นในการใช้กระแสเงินสดนั้น ในการจัดทำงบแสดงการเปลี่ยนแปลงฐานะการเงิน คำว่าเงินทุนอาจมีคำนิยามหลายความหมาย เช่น ทรัพยากรทางการเงินทั้งหมด เงินทุนหมุนเวียน สินทรัพย์ที่มีสภาพคล่องหรือเงินสด แม่บทการบัญชีนี้มิได้กำหนดคำนิยามของคำว่าเงินทุนแต่อย่างใด

19. โดยทั่วไป ข้อมูลเกี่ยวกับฐานะการเงินจะแสดงในงบดุล ในขณะที่ข้อมูลเกี่ยวกับผลการดำเนินงานจะแสดงในงบกำไรขาดทุน ส่วนข้อมูลที่เกี่ยวกับการเปลี่ยนแปลงฐานะการเงินจะแสดงไว้ในงบแยกต่างหาก

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20. ส่วนประกอบของงบการเงินมีความสัมพันธ์กันเนื่องจากส่วนประกอบเหล่านั้นสะท้อนให้เห็นลักษณะที่แตกต่างของรายการหรือเหตุการณ์ทางบัญชีต่าง ๆ แม้ว่างบการเงินแต่ละงบจะให้ข้อมูลที่มีลักษณะแตกต่างกัน แต่ไม่มีงบการเงินใดที่ตอบสนองวัตถุประสงค์ใดเพียงวัตถุประสงค์เดียว หรือให้ข้อมูลทั้งหมดที่จำเป็นต่อความต้องการเฉพาะของผู้ใช้งบการเงิน ตัวอย่างเช่น งบกำไรขาดทุนไม่อาจสะท้อนให้เห็นถึงผลการดำเนินงานของกิจการได้ครบถ้วน หากผู้ใช้งบการเงินมิได้พิจารณางบกำไรขาดทุนร่วมกับงบดุลและงบแสดงการเปลี่ยนแปลงฐานะการเงิน

หมายเหตุประกอบงบการเงินและรายละเอียดประกอบ

21. งบการเงินหมายรวมถึงหมายเหตุประกอบงบการเงิน รายละเอียดประกอบและข้อมูลอื่น ตัวอย่างเช่น งบการเงินอาจแสดงข้อมูลเพิ่มเติมอื่นที่เกี่ยวข้องกับรายการในงบดุลและงบกำไรขาดทุนซึ่งจำเป็นต่อผู้ใช้งบการเงิน งบการเงินดังกล่าวอาจรวมถึงการเปิดเผยข้อมูลเกี่ยวกับความเสี่ยงและความไม่แน่นอนที่มีผลกระทบต่อกิจการ และข้อมูลเกี่ยวกับทรัพยากรหรือภาระผูกพันที่ไม่ได้แสดงไว้ในงบดุล (เช่น ปริมาณสำรองแร่) ข้อมูลเกี่ยวกับการจำแนกส่วนงานทางภูมิศาสตร์และทางอุตสาหกรรม และผลกระทบต่อกิจการจากการเปลี่ยนแปลงระดับราคา

ข้อสมมติ

เกณฑ์คงค้าง

22. งบการเงินจัดทำขึ้นโดยใช้เกณฑ์คงค้างเพื่อให้บรรลุวัตถุประสงค์ดังที่กล่าวมาแล้ว ภายใต้เกณฑ์คงค้าง รายการและเหตุการณ์ทางบัญชีจะรับรู้เมื่อเกิดขึ้นมิใช่เมื่อมีการรับหรือจ่ายเงินสดหรือรายการเทียบเท่าเงินสด โดยรายการต่าง ๆ จะบันทึกบัญชีและแสดงในงบการเงินตามงวดที่เกี่ยวข้อง งบการเงินที่จัดทำขึ้นตามเกณฑ์คงค้างนอกจากจะให้ข้อมูลแก่ผู้ใช้งบการเงินเกี่ยวกับรายการค้าในอดีตที่เกี่ยวข้องกับการรับและจ่ายเงินสดแล้ว ยังให้ข้อมูลเกี่ยวกับภาระผูกพันที่กิจการต้องจ่ายเป็นเงินสดในอนาคตและข้อมูลเกี่ยวกับทรัพยากรที่จะได้รับเป็นเงินสดในอนาคตด้วย ดังนั้น งบการเงินจึงสามารถให้ข้อมูลเกี่ยวกับรายการและเหตุการณ์ทางบัญชีในอดีตซึ่งเป็นประโยชน์แก่ผู้ใช้งบการเงินในการตัดสินใจเชิงเศรษฐกิจ

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การดำเนินงานต่อเนื่อง

23. โดยทั่วไปงบการเงินจัดทำขึ้นตามข้อสมมติที่ว่าการดำเนินงานอย่างต่อเนื่องและดำรงอยู่ต่อไปในอนาคต ดังนั้น จึงสมมติว่ากิจการไม่มีเจตนาหรือมีความจำเป็นที่จะเลิกกิจการหรือลดขนาดของการดำเนินงานอย่างมีนัยสำคัญ หากกิจการมีเจตนาหรือความจำเป็นดังกล่าวงบการเงินต้องจัดทำขึ้นโดยใช้เกณฑ์อื่นและต้องเปิดเผยหลักเกณฑ์ที่ใช้ในงบการเงินด้วย

ลักษณะเชิงคุณภาพของงบการเงิน

24. ลักษณะเชิงคุณภาพ หมายถึง คุณสมบัติที่ทำให้ข้อมูลในงบการเงินมีประโยชน์ต่อผู้ใช้งบการเงิน ลักษณะเชิงคุณภาพหลักของงบการเงินมีสี่ประการ ได้แก่ ความเข้าใจได้ ความเกี่ยวข้องกับการตัดสินใจ ความเชื่อถือได้ และการเปรียบเทียบกันได้

ความเข้าใจได้

25. ข้อมูลในงบการเงินต้องสามารถเข้าใจได้ทันทีที่ผู้ใช้งบการเงินใช้ข้อมูลดังกล่าว ดังนั้น จึงต้องมีข้อสมมติว่าผู้ใช้งบการเงินมีความรู้ตามควรเกี่ยวกับธุรกิจ กิจกรรมเชิงเศรษฐกิจและการบัญชีรวมทั้งมีความตั้งใจตามควรที่จะศึกษาข้อมูลดังกล่าว อย่างไรก็ตาม ข้อมูลแม้ว่าจะมีความซับซ้อนแต่ถ้าเกี่ยวข้องกับการตัดสินใจเชิงเศรษฐกิจก็ไม่ควรละเว้นที่จะแสดงในงบการเงินเพียงเหตุผลที่ว่าข้อมูลดังกล่าวยากเกินกว่าที่ผู้ใช้งบการเงินบางคนจะเข้าใจได้

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ความเกี่ยวข้องกับการตัดสินใจ

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26. ข้อมูลที่มีประโยชน์ต้องเกี่ยวข้องกับการตัดสินใจของผู้ใช้งบการเงิน ข้อมูลจะเกี่ยวข้องกับการตัดสินใจเชิงเศรษฐกิจได้ก็ต่อเมื่อข้อมูลนั้นช่วยให้ผู้ใช้งบการเงินสามารถประเมินเหตุการณ์ในอดีต ปัจจุบัน และอนาคต รวมทั้งช่วยยืนยันหรือชี้ข้อผิดพลาดของผลการประเมินที่ผ่านมาของผู้ใช้งบการเงินได้

27. บทบาทของข้อมูลที่ช่วยในการคาดคะเนและยืนยันความถูกต้องของการคาดคะเนที่ผ่านมามีความสัมพันธ์กัน ตัวอย่างเช่น ข้อมูลเกี่ยวกับปริมาณและโครงสร้างของสินทรัพย์ที่กิจการมีอยู่ใน

ปัจจุบันมีประโยชน์ต่อผู้ใช้งบการเงิน เพราะจะช่วยให้ผู้ใช้งบการเงินสามารถคาดคะเนถึงความสามารถของกิจการในการรับประโยชน์จากโอกาสใหม่ ๆ และในการแก้ไขสถานการณ์ ข้อมูลเดียวกันนี้มีบทบาทในการยันยืนความถูกต้องของการคาดคะเนในอดีตที่เกี่ยวกับโครงสร้างของกิจการและผลการดำเนินงานตามที่วางแผนไว้

28. ข้อมูลเกี่ยวกับฐานะการเงินและผลการดำเนินงานในอดีตของกิจการมักถือเป็นเกณฑ์ในการคาดคะเนฐานะการเงินและผลการดำเนินงานในอนาคต รวมทั้งเรื่องอื่น ๆ ที่ผู้ใช้งบการเงินสนใจ เช่น การจ่ายเงินปันผล การจ่ายค่าจ้าง การเคลื่อนไหวของราคาหลักทรัพย์ และความสามารถของกิจการในการชำระภาระผูกพันเมื่อครบกำหนด อย่างไรก็ตาม ข้อมูลจะมีประโยชน์ต่อการคาดคะเนได้โดยไม่จำเป็นต้องจัดทำในรูปของประมาณการ ความสามารถในการคาดคะเนจะเพิ่มขึ้นตามลักษณะการแสดงข้อมูลในงบการเงินของรายการและเหตุการณ์ทางบัญชีที่เกิดขึ้นในอดีต ตัวอย่างเช่น งบกำไรขาดทุนจะมีประโยชน์ในการคาดคะเนเพิ่มขึ้นหากรายการเกี่ยวกับการดำเนินงานที่มีลักษณะไม่เป็นปกติ รายการผิดปกติจากการดำเนินงานและรายการที่ไม่เกิดขึ้นบ่อยของรายได้และค่าใช้จ่ายแสดงแยกต่างหากจากกัน

ความมีนัยสำคัญ

29. ความเกี่ยวข้องกับการตัดสินใจของข้อมูลขึ้นอยู่กับลักษณะและความมีนัยสำคัญของข้อมูลนั้นในบางกรณี ลักษณะของข้อมูลเพียงอย่างเดียวก็เพียงพอที่ใช้ตัดสินว่าข้อมูลมีความเกี่ยวข้องกับการตัดสินใจหรือไม่ ตัวอย่างเช่น การรายงานส่วนงานใหม่อาจส่งผลกระทบต่อการประเมินความเสี่ยงและโอกาสของกิจการ แม้ว่าผลการดำเนินงานของส่วนงานในงวดนั้นจะไม่มีนัยสำคัญในกรณีอื่น ทั้งลักษณะและความมีนัยสำคัญของข้อมูลล้วนมีส่วนสำคัญในการตัดสินว่าข้อมูลมีความเกี่ยวข้องกับการตัดสินใจหรือไม่ ตัวอย่างเช่น มูลค่าของสินค้าคงเหลือแยกตามประเภทหลักที่เหมาะสมกับธุรกิจ หากมูลค่าของสินค้าคงเหลือไม่มีนัยสำคัญ ข้อมูลเกี่ยวกับสินค้าคงเหลือนั้นก็ไม่เกี่ยวข้องกับการตัดสินใจ

30. ข้อมูลจะถือว่ามีนัยสำคัญหากการไม่แสดงข้อมูลหรือการแสดงข้อมูลผิดพลาดมีผลกระทบต่อผู้ใช้งบการเงินในการตัดสินใจเชิงเศรษฐกิจ ความมีนัยสำคัญขึ้นอยู่กับขนาดของรายการหรือขนาดของความผิดพลาดที่เกิดขึ้นภายใต้สภาพการณ์เฉพาะซึ่งต้องพิจารณาเป็นกรณี ๆ ไป ดังนั้น ความมีนัยสำคัญจึงถือเป็นข้อพิจารณามากกว่าจะเป็นลักษณะเชิงคุณภาพซึ่งข้อมูลต้องมีหากข้อมูลนั้นจะถือว่ามีประโยชน์

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ความเชื่อถือได้

31. ข้อมูลที่เป็นประโยชน์ต้องเชื่อถือได้ ข้อมูลจะมีคุณสมบัติของความเชื่อถือได้หากปราศจากความผิดพลาดที่มีนัยสำคัญและความลำเอียง ซึ่งทำให้ผู้ใช้ข้อมูลสามารถเชื่อได้ว่าข้อมูลนั้นเป็นตัวแทนอันเที่ยงธรรมของข้อมูลที่ต้องการหรือควรแสดง

32. ข้อมูลอาจมีความเกี่ยวข้องกับการตัดสินใจแต่การรับรู้ข้อมูลดังกล่าวอาจทำให้ผู้ใช้งบการเงินเข้าใจผิดเนื่องจากข้อมูลขาดความน่าเชื่อ ตัวอย่างเช่น ประมาณการค่าเสียหายจากการฟ้องร้องที่อยู่ในระหว่างการพิจารณาคดีอาจขาดความน่าเชื่อถือเนื่องจากจำนวนค่าเสียหาย และผลการพิจารณาคดียังเป็นที่ไม่แน่นอนและไม่สามารถคาดเดาอย่างสมเหตุสมผลได้ ดังนั้น กิจการจึงไม่ควรรับรู้ค่าเสียหายดังกล่าวในงบการเงิน แต่ควรเปิดเผยจำนวนค่าเสียหายที่มีการเรียกร้องและเหตุการณ์ที่เกี่ยวกับการฟ้องร้องดังกล่าว

การเป็นตัวแทนอันเที่ยงธรรม

33. ข้อมูลจะมีความเชื่อถือได้เมื่อรายการและเหตุการณ์ทางบัญชีได้แสดงอย่างเที่ยงธรรมตามที่ต้องการให้แสดงหรือควรจะแสดง ดังนั้น งบดุลควรแสดงสินทรัพย์ หนี้สิน และส่วนของเจ้าของเฉพาะรายการและเหตุการณ์ทางบัญชีที่เข้าเกณฑ์การรับรู้รายการ ณ วันที่เสนอรายงาน

34. ข้อมูลทางการเงินอาจไม่เป็นตัวแทนอันเที่ยงธรรมของรายการที่ต้องการให้แสดง ทั้งนี้มิได้มีสาเหตุมาจากความลำเอียง หากเกิดจากความซับซ้อนในการวัดค่าของรายการและเหตุการณ์ทางบัญชีหรือเกิดจากการนำหลักการวัดค่าและเทคนิคในการนำเสนอรายการมาประยุกต์ใช้ในบางกรณี การวัดค่าผลกระทบทางการเงินของรายการบางรายการอาจมีความไม่แน่นอนสูงจนกระทั่งกิจการไม่อาจรับรู้รายการนั้นในงบกรเงินได้ ตัวอย่างเช่น กิจการมีค่าความนิยมที่เกิดขึ้นหลังจากได้ดำเนินงานมาระยะหนึ่ง แต่กิจการไม่สามารถบันทึกค่าความนิยมที่เกิดขึ้นภายในได้ เนื่องจากเป็นการยากที่กิจการจะกำหนดมูลค่าของค่าความนิยมดังกล่าวได้อย่างน่าเชื่อถือ อย่างไรก็ตาม ในบางกรณีกิจการอาจจำเป็นต้องรับรู้รายการและเปิดเผยข้อมูลเกี่ยวกับความเสี่ยงจากการผิดพลาดในการรับรู้และการวัดค่าของรายการนั้น

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เนื้อหาสำคัญกว่ารูปแบบ

35. ข้อมูลเป็นตัวแทนอันเที่ยงธรรมของรายการและเหตุการณ์ทางบัญชี ดังนั้น ข้อมูลต้องบันทึกและแสดงตามเนื้อหาและความเป็นจริงเชิงเศรษฐกิจมิใช่ตามรูปแบบทางกฎหมายเพียงอย่างเดียวเนื้อหาของรายการและเหตุการณ์ทางบัญชีอาจไม่ตรงกับรูปแบบทางกฎหมายหรือรูปแบบที่ทำขึ้น ตัวอย่างเช่น กิจการอาจโอนสินทรัพย์ให้กับบุคคลอื่นโดยมีเอกสารยืนยันว่าได้มีการโอนกรรมสิทธิ์ตามกฎหมายไปให้กับบุคคลนั้นแล้วแต่ในสัญญาระบุให้กิจการยังคงได้รับประโยชน์เชิงเศรษฐกิจในอนาคตจากสินทรัพย์นั้นต่อไป ในกรณีดังกล่าวการที่กิจการรายงานว่าได้ขายสินทรัพย์จึงไม่เป็นตัวแทนอันเที่ยงธรรมของรายการที่เกิดขึ้น

ความเป็นกลาง

36. ข้อมูลที่แสดงอยู่ในงบการเงินมีความน่าเชื่อถือเมื่อมีความเป็นกลางหรือปราศจากความลำเอียง งบการเงินจะขาดความเป็นกลางหากการเลือกข้อมูลหรือการแสดงข้อมูลในงบการเงินนั้นมีผลทำให้ผู้ใช้งบการเงินตัดสินใจหรือใช้ดุลยพินิจตามเจตนาของกิจการ

ความระมัดระวัง

37. โดยทั่วไปผู้จัดการทำงบการเงินต้องประสบกับความไม่แน่นอนอันหลีกเลี่ยงไม่ได้เกี่ยวกับเหตุการณ์ต่างๆ ตัวอย่างเช่น ความสามารถในการเก็บหนี้ การประมาณอายุการใช้งานของสินทรัพย์ที่มีตัวตน และจำนวนการเรียกร้องค่าเสียหายที่อาจเกิดขึ้นตามสัญญารับประกัน กิจการอาจแสดงความไม่แน่นอนดังกล่าวโดยการเปิดเผยถึงลักษณะผลกระทบ และหลักความระมัดระวังที่กิจการใช้ในการจัดทำงบการเงิน หลักความระมัดระวังนี้รวมถึงการใช้ดุลยพินิจที่จำเป็นในการประมาณการภายใต้ความไม่แน่นอนเพื่อมิให้สินทรัพย์หรือรายได้แสดงจำนวนสูงเกินไป และหนี้สินหรือค่าใช้จ่ายแสดงจำนวนต่ำเกินไป อย่างไรก็ตาม การใช้หลักความระมัดระวังมิได้อนุญาตให้กิจการตั้งสำรองลับหรือตั้งค่าเผื่อไว้สูงเกินไป การแสดงสินทรัพย์หรือรายได้ให้ต่ำเกินไปหรือแสดงหนี้สินหรือค่าใช้จ่ายให้สูงเกินไปโดยเจตนาจะทำให้งบการเงินขาดความเป็นกลางและทำให้ขาดความน่าเชื่อถือ

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ความครบถ้วน

38. ข้อมูลในงบการเงินที่เชื่อถือได้ต้องครบถ้วนภายใต้ข้อจำกัดของความมีนัยสำคัญและต้นทุนในการจัดทำ รายการบางรายการหากไม่แสดงในงบการเงินจะทำให้ข้อมูลมีความผิดพลาดหรือทำให้ผู้ใช้งบการเงินเข้าใจผิด ดังนั้น ข้อมูลดังกล่าวจะมีความเกี่ยวข้องกับการตัดสินใจน้อยลงและขาดความน่าเชื่อถือได้

การเปรียบเทียบกันได้

39. ผู้ใช้งบการเงินต้องสามารถเปรียบเทียบงบการเงินของกิจการในรอบระยะเวลาต่างกันเพื่อคาดคะเนถึงแนวโน้มของฐานะการเงินและผลการดำเนินงานของกิจการนั้น นอกจากนี้ ผู้ใช้งบการเงินยังต้องสามารถเปรียบเทียบงบการเงินระหว่างกิจการเพื่อประเมินฐานะการเงิน ผลการดำเนินงาน และการเปลี่ยนแปลงฐานะการเงิน ดังนั้น การวัดมูลค่าและการแสดงผลกระทบทางการเงินของรายการและเหตุการณ์ทางบัญชีที่มีลักษณะคล้ายคลึงกันจึงจำเป็นต้องปฏิบัติอย่างสม่ำเสมอไม่ว่าจะเป็นการปฏิบัติภายในกิจการเดียวกันแต่ต่างรอบระยะเวลา หรือเป็นการปฏิบัติของกิจการแต่ละกิจการก็ตาม

40. การเปรียบเทียบกันได้เป็นลักษณะเชิงคุณภาพที่สำคัญกล่าวคือ ผู้ใช้งบการเงินจำเป็นต้องได้รับข้อมูลเกี่ยวกับนโยบายการบัญชีที่ใช้ในการจัดทำงบการเงิน รวมทั้งการเปลี่ยนแปลงนโยบายการบัญชีและผลกระทบจากการเปลี่ยนแปลงดังกล่าว ผู้ใช้งบการเงินต้องสามารถระบุความแตกต่างระหว่างนโยบายการบัญชีที่กิจการใช้สำหรับรายการและเหตุการณ์ทางบัญชีที่คล้ายคลึงกันในรอบระยะเวลาบัญชีที่ต่างกัน และความแตกต่างระหว่างนโยบายการบัญชีที่ใช้ของกิจการแต่ละกิจการได้ การปฏิบัติตามมาตรฐานการบัญชีซึ่งรวมถึงการเปิดเผยนโยบายการบัญชีจะช่วยให้งบการเงินมีคุณสมบัติในการเปรียบเทียบกันได้

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41. การที่ข้อมูลจำเป็นต้องเปรียบเทียบกันได้มิได้หมายความว่าข้อมูลต้องอยู่ในรูปแบบเดียวกันตลอดไป และไม่ใช่ข้ออ้างอันสมควรที่จะไม่นำมาตรฐานการบัญชีที่เหมาะสมกว่ามาถือปฏิบัติ ตัวอย่างเช่น กิจการไม่ควรใช้นโยบายการบัญชีต่อไปสำหรับรายการและเหตุการณ์ทางบัญชี หากนโยบายการบัญชีนั้นไม่สามารถทำให้ข้อมูลมีลักษณะเชิงคุณภาพที่เกี่ยวข้องกับการตัดสินใจและความเชื่อถือได้

นอกจากนั้น กิจการควรเลือกใช้นโยบายการบัญชีอื่น หากทำให้ข้อมูลเกี่ยวข้องกับการตัดสินใจและเชื่อถือได้มากขึ้น

42. เนื่องจากผู้ใช้งบการเงินต้องการเปรียบเทียบฐานะการเงิน ผลการดำเนินงาน และการเปลี่ยนแปลงฐานะการเงินของกิจการสำหรับรอบระยะเวลาที่ต่างกัน ดังนั้น งบการเงินจึงควรแสดงข้อมูลของรอบระยะเวลาที่ผ่านมาด้วยเพื่อประโยชน์ในการเปรียบเทียบ

ข้อจำกัดของข้อมูลที่มีความเกี่ยวข้องกับการตัดสินใจและความเชื่อถือได้

ทันต่อเวลา

43. การรายงานข้อมูลล่าช้าทำให้ข้อมูลสูญเสียความเกี่ยวข้องกับการตัดสินใจ อย่างไรก็ตาม ฝ่ายบริหารอาจต้องพิจารณาเปรียบเทียบระหว่างประโยชน์ที่จะได้รับจากการรายงานที่ทันต่อเวลากับความเชื่อถือได้ของรายงานนั้น กิจการอาจจำเป็นต้องเสนอรายงานให้ทันต่อเวลาก่อนที่จะทราบข้อมูลเกี่ยวกับรายการและเหตุการณ์ทางบัญชีในทุกลักษณะซึ่งอาจทำให้ความเชื่อถือได้ลดลง ในทางกลับกันหากกิจการจะรอจนกระทั่งทราบข้อมูลในทุกลักษณะจึงจะเสนอรายงาน รายงานนั้นอาจมีความเชื่อถือได้สูงแต่ไม่มีประโยชน์ต่อผู้ใช้งบการเงินในการตัดสินใจในช่วงเวลานั้น ในการหาความสมดุลระหว่างความเกี่ยวข้องกับการตัดสินใจและความเชื่อถือได้ของข้อมูล กิจการจึงต้องพิจารณาถึงความต้องการของผู้ใช้งบการเงินในการตัดสินใจเชิงเศรษฐกิจเป็นหลัก

ความสมดุลระหว่างประโยชน์ที่ได้รับกับต้นทุนที่เสียไป

44. ความสมดุลระหว่างประโยชน์ที่ได้รับกับต้นทุนที่เสียไปถือเป็นข้อจำกัดที่สำคัญของงบการเงินมากกว่าจะถือเป็นลักษณะเชิงคุณภาพ โดยทั่วไปประโยชน์ที่ได้รับจากข้อมูลควรมากกว่าต้นทุนในการจัดหาข้อมูลนั้น การประเมินประโยชน์และต้นทุนจำเป็นต้องใช้ดุลยพินิจเป็นหลัก โดยเฉพาะเมื่อผู้ที่ได้รับประโยชน์จากข้อมูลไม่ต้องรับผิดชอบต่อต้นทุนในการจัดหาข้อมูลนั้นและข้อมูลอาจให้ประโยชน์แก่บุคคลอื่นนอกเหนือจากผู้ที่กิจการต้องการเสนอข้อมูล ดังนั้น จึงเป็นการยากที่จะกำหนดสูตรสำเร็จในการหาความสมดุลระหว่างประโยชน์ที่ได้รับกับต้นทุนที่เสียไปเพื่อให้นำมาปฏิบัติได้ในทุกกรณี อย่างไรก็ตาม คณะกรรมการมาตรฐานการบัญชีจะไม่ละเลยข้อจำกัดดังกล่าวในการออกกฎและผู้ใช้งบการเงินต้องตระหนักว่าผู้จัดทำงบการเงินมีข้อจำกัดเดียวกันในการจัดทำและนำเสนองบการเงิน

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ความสมดุลของลักษณะคุณภาพ

45. ในทางปฏิบัติ การสร้างความสมดุลระหว่างลักษณะเชิงคุณภาพต่าง ๆ ถือเป็นสิ่งจำเป็น ผู้จัดทำงบการเงินต้องหาความสมดุลของลักษณะเชิงคุณภาพต่าง ๆ เพื่อให้งบการเงินบรรลุวัตถุประสงค์แต่ความสัมพันธ์ระหว่างลักษณะเชิงคุณภาพจะแตกต่างกันไปในแต่ละกรณี ผู้จัดทำงบการเงินจึงจำเป็นต้องใช้ดุลยพินิจเยี่ยงผู้ประกอบวิชาชีพในการตัดสินใจเลือกความสมดุลดังกล่าว

การแสดงข้อมูลที่ถูกต้องตามควร

46. โดยทั่วไป งบการเงินแสดงข้อมูลที่ถูกต้องตามควรเกี่ยวกับฐานะการเงิน ผลการดำเนินงานและการเปลี่ยนแปลงฐานะการเงินของกิจการ แม้ว่าแม่บทการบัญชีนี้ไม่เกี่ยวข้องโดยตรงกับแนวคิดในการแสดงข้อมูลที่ถูกต้องตามควร แต่การนำลักษณะเชิงคุณภาพและมาตรฐานการบัญชีที่เหมาะสมมาปฏิบัติก็สามารถส่งผลให้งบการเงินแสดงข้อมูลที่ถูกต้องและยุติธรรมได้ หรืออีกนัยหนึ่งงบการเงินนั้นให้ข้อมูลที่ถูกต้องตามควรนั่นเอง

องค์ประกอบของงบการเงิน

47. งบการเงินแสดงถึงผลกระทบทางการเงินโดยการจัดประเภทของรายการและเหตุการณ์ทางบัญชีตามลักษณะเชิงเศรษฐกิจ ประเภทของรายการดังกล่าวเรียกว่าองค์ประกอบของงบการเงิน องค์ประกอบซึ่งเกี่ยวข้องโดยตรงกับการวัดฐานะการเงินในงบดุล ได้แก่ สินทรัพย์ หนี้สิน และส่วนของเจ้าของ องค์ประกอบซึ่งเกี่ยวข้องโดยตรงกับการวัดผลการดำเนินงานในงบกำไรขาดทุน ได้แก่ รายได้และค่าใช้จ่าย โดยทั่วไปงบแสดงการเปลี่ยนแปลงฐานะการเงินสะท้อนถึงองค์ประกอบในงบกำไรขาดทุนและการเปลี่ยนแปลงองค์ประกอบในงบดุล ดังนั้น แม่บทการบัญชีจึงมิได้ระบุองค์ประกอบของงบแสดงการเปลี่ยนแปลงฐานะการเงินไว้เป็นการเฉพาะ

48. องค์ประกอบต่าง ๆ ที่แสดงอยู่ในงบดุลและงบกำไรขาดทุนควรจัดประเภทย่อย ตัวอย่างเช่น สินทรัพย์และหนี้สินควรจัดประเภทย่อยตามลักษณะหรือหน้าที่ทางธุรกิจของกิจการเพื่อแสดงข้อมูลในลักษณะที่เป็นประโยชน์ต่อผู้ใช้งบการเงินในการตัดสินใจเชิงเศรษฐกิจ

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ฐานะการเงิน

49. องค์ประกอบที่เกี่ยวข้องโดยตรงกับการวัดฐานะการเงินได้แก่ สินทรัพย์ หนี้สิน และส่วนของเจ้าของ คำนิยามขององค์ประกอบต่าง ๆ กำหนดไว้ดังนี้
    - 49.1 สินทรัพย์ หมายถึง ทรัพยากรที่อยู่ในความควบคุมของกิจการ ทรัพยากรดังกล่าวเป็นผลของเหตุการณ์ในอดีตซึ่งกิจการคาดว่าจะได้รับประโยชน์เชิงเศรษฐกิจจากทรัพยากรนั้นในอนาคต
    - 49.2 หนี้สิน หมายถึง ภาระผูกพันในปัจจุบันของกิจการ ภาระผูกพันดังกล่าวเป็นผลของเหตุการณ์ในอดีตซึ่งการชำระภาระผูกพันนั้นคาดว่าจะส่งผลให้กิจการสูญเสียทรัพยากรที่มีประโยชน์เชิงเศรษฐกิจ
    - 49.3 ส่วนของเจ้าของ หมายถึง ส่วนได้เสียคงเหลือในสินทรัพย์ของกิจการหลังจากหักหนี้สินทั้งสิ้นออกแล้ว

50. คำนิยามของสินทรัพย์และหนี้สินข้างต้นกำหนดลักษณะที่สำคัญแต่มิได้กำหนดเกณฑ์การรับรู้รายการในงบดุล ดังนั้น คำนิยามดังกล่าวจึงรวมรายการสินทรัพย์หรือหนี้สินที่ไม่ได้รับรู้ในงบดุลเนื่องจากไม่เข้าเกณฑ์การรับรู้รายการดังที่กล่าวไว้ในย่อหน้าที่ 82 ถึง 98 ซึ่งระบุว่าการคาดคะเนประโยชน์เชิงเศรษฐกิจในอนาคตที่เข้าหรือออกจากกิจการ ต้องมีความแน่นอนเพียงพอที่จะผ่านเกณฑ์ความน่าจะเป็นตามย่อหน้าที่ 83 ก่อนที่จะรับรู้รายการนั้นเป็นสินทรัพย์หรือหนี้สินในงบดุลได้

51. ในการพิจารณาว่ารายการใดเป็นสินทรัพย์ หนี้สิน หรือส่วนของเจ้าของตามคำนิยามหรือไม่กิจการควรให้ความสนใจกับเนื้อหาและความเป็นจริงเชิงเศรษฐกิจ มิใช่รูปแบบทางกฎหมายเพียงอย่างเดียว ตัวอย่างเช่น ในกรณีสัญญาเช่าการเงินเนื้อหาและความเป็นจริงเชิงเศรษฐกิจคือผู้เช่าได้รับประโยชน์เชิงเศรษฐกิจจากการใช้สินทรัพย์ที่เช่าโดยที่อายุการเช่าครอบคลุมอายุการใช้งานส่วนใหญ่ของสินทรัพย์นั้น ในขณะเดียวกัน ผู้เช่ามีภาระผูกพันที่ต้องชำระเงินเป็นจำนวนใกล้เคียงกับมูลค่ายุติธรรมของสินทรัพย์บวกค่าใช้จ่ายทางการเงินที่เกี่ยวข้อง ดังนั้น การทำสัญญาเช่าการเงินก่อให้เกิดรายการสินทรัพย์และหนี้สินตามคำนิยาม ผู้เช่าจึงต้องรับรู้รายการดังกล่าวในงบดุล

52. งบดุลที่จัดทำขึ้นตามมาตรฐานการบัญชีที่มีอยู่ในปัจจุบันอาจรวมรายการสินทรัพย์ หนี้สินหรือส่วนของเจ้าของที่ไม่เป็นไปตามนิยาม อย่างไรก็ตาม คณะกรรมการมาตรฐานการบัญชีจะปรับปรุง

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มาตรฐานการบัญชีที่มีอยู่ในปัจจุบัน และพัฒนามาตรฐานการบัญชีที่จะใช้ในอนาคตให้สอดคล้องกับคำนิยามตามย่อหน้าที่ 49

สินทรัพย์

53. ประโยชน์เชิงเศรษฐกิจในอนาคตของสินทรัพย์ หมายถึง ศักยภาพของสินทรัพย์ในการก่อให้เกิดกระแสเงินสดและรายการเทียบเท่าเงินสดแก่กิจการทั้งทางตรงและทางอ้อม ศักยภาพดังกล่าวอาจอยู่ในรูปของการผลิตซึ่งเป็นส่วนหนึ่งของกิจกรรมดำเนินงาน หรืออาจอยู่ในรูปของความสามารถในการแปลงให้เป็นเงินสดหรือรายการเทียบเท่าเงินสด หรือความสามารถในการลดกระแสเงินสดจ่าย เช่น กระบวนการผลิตใหม่ที่ช่วยลดต้นทุนการผลิต

54. โดยทั่วไปกิจการใช้สินทรัพย์เพื่อผลิตสินค้าหรือบริการที่สามารถตอบสนองความต้องการของลูกค้า เมื่อสินค้าหรือบริการนั้นตอบสนองความต้องการของลูกค้าได้ ลูกค้าจึงพร้อมที่จะจ่ายเงินให้กิจการเพื่อซื้อสินค้าหรือบริการซึ่งทำให้กิจการได้รับกระแสเงินสดที่จะเป็นประโยชน์ในการจัดหาทรัพยากรอื่น

55. กิจการอาจได้รับประโยชน์เชิงเศรษฐกิจในอนาคตจากสินทรัพย์ในหลายลักษณะ ตัวอย่างเช่น

    55.1 กิจการอาจใช้สินทรัพย์หรือนำสินทรัพย์มาใช้ร่วมกับสินทรัพย์อื่นเพื่อผลิตสินค้าหรือบริการ

    55.2 กิจการอาจนำสินทรัพย์ที่มีอยู่ไปแลกกับสินทรัพย์อื่น

    55.3 กิจการอาจนำสินทรัพย์ไปชำระหนี้สิน

    55.4 กิจการอาจนำสินทรัพย์มาแบ่งปันส่วนทุนให้กับเจ้าของ

56. สินทรัพย์หลายประเภทเป็นสินทรัพย์ที่มีตัวตน เช่น ที่ดิน อาคารและอุปกรณ์ อย่างไรก็ตาม ความมีตัวตนมิใช่สาระสำคัญที่กำหนดว่าสินทรัพย์มีอยู่จริง ดังนั้น ลิขสิทธิ์และสิทธิบัตรถือเป็นสินทรัพย์ของกิจการหากคาดคะเนได้ว่ากิจการจะได้รับประโยชน์เชิงเศรษฐกิจในอนาคตจากลิขสิทธิ์และสิทธิบัตร และลิขสิทธิ์และสิทธิบัตรนั้นอยู่ในความควบคุมของกิจการ

57. สินทรัพย์หลายประเภทเกี่ยวข้องกับสิทธิทางกฎหมายซึ่งรวมถึงกรรมสิทธิ์ในสินทรัพย์นั้น เช่น ลูกหนี้และที่ดิน อย่างไรก็ตาม กรรมสิทธิ์มิใช่เรื่องสำคัญในการพิจารณาว่าสินทรัพย์เป็นของกิจการหรือไม่ ตัวอย่างเช่น ที่ดินตามสัญญาเช่าระยะยาวถือเป็นสินทรัพย์หากกิจการสามารถควบคุมประโยชน์ที่คาดว่าจะเกิดจากที่ดินนั้น โดยทั่วไปความสามารถของกิจการในการควบคุมประโยชน์ของสินทรัพย์ถือเป็นสิทธิตามกฎหมาย แต่รายการบางรายการอาจเป็นสินทรัพย์ตามคำนิยามแม้ว่า

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กิจการจะไม่มีสิทธิตามกฎหมายที่จะควบคุมสินทรัพย์นั้น เช่น ความรู้ความชำนาญที่กิจการได้จากการวิจัยพัฒนาอาจเป็นสินทรัพย์ตามคำนิยามหากกิจการสามารถรักษาความรู้ความชำนาญดังกล่าวเป็นความลับซึ่งทำให้กิจการสามารถควบคุมประโยชน์ที่คาดว่าจะได้รับจากความรู้ความชำนาญนั้น

58. สินทรัพย์ของกิจการเป็นผลของรายการและเหตุการณ์ทางบัญชีในอดีต โดยทั่วไปกิจการจะซื้อหรือผลิตสินทรัพย์ขึ้นเอง แต่กิจการอาจได้รับสินทรัพย์มาจากรายการและเหตุการณ์ทางบัญชีในลักษณะอื่น เช่น ที่ดินที่ได้รับจากรัฐบาลตามโครงการส่งเสริมเศรษฐกิจ อย่างไรก็ตาม รายการและเหตุการณ์ทางบัญชีที่คาดว่าจะเกิดในอนาคตยังไม่ถือเป็นสินทรัพย์ ดังนั้น ความตั้งใจที่กิจการจะซื้อสินค้าจึงไม่ใช่สินทรัพย์เพราะไม่เป็นไปตามคำนิยาม

59. การเกิดรายจ่ายอาจเกี่ยวพันอย่างใกล้ชิดกับการได้มาซึ่งสินทรัพย์จำเป็นต้องเกิดพร้อมกันเสมอไป ดังนั้น รายจ่ายที่เกิดขึ้นอาจเป็นหลักฐานว่ากิจการกำลังแสวงหาประโยชน์เชิงเศรษฐกิจในอนาคต แต่มิได้เป็นหลักฐานที่ทำให้สามารถสรุปได้ว่ารายจ่ายนั้นเป็นสินทรัพย์ตามคำนิยามในทำนองเดียวกัน สินทรัพย์อาจเป็นไปตามคำนิยามแม้จะไม่มีรายจ่ายเกิดขึ้น ตัวอย่างเช่น ที่ดินที่ได้รับจากการบริจาคอาจเป็นสินทรัพย์ตามคำนิยามซึ่งกิจการสามารถรับรู้ในงบดุลได้

หนี้สิน

60. ลักษณะสำคัญของหนี้สินคือ ต้องเป็นภาระผูกพันในปัจจุบันของกิจการ ภาระผูกพัน หมายถึง หน้าที่หรือความรับผิดชอบที่ต้องปฏิบัติตามที่ตกลงไว้ ภาระผูกพันอาจมีผลบังคับตามกฎหมายเนื่องจากเป็นสัญญาผูกมัดหรือเป็นข้อบังคับตามกฎหมาย ตัวอย่างเช่น จำนวนเงินคงค้างค่าสินค้าหรือบริการที่กิจการได้รับ อย่างไรก็ตาม ภาระผูกพันอาจเกิดจากการดำเนินงานตามปกติของกิจการจากประเพณีการค้า หรือจากความต้องการที่จะรักษาความสัมพันธ์เชิงธุรกิจกับลูกค้า ตัวอย่างเช่น หากกิจการมีนโยบายที่จะแก้ไขข้อบกพร่องของสินค้าแม้ไม่อยู่ในระยะเวลารับประกันกิจการต้องบันทึกจำนวนเงินที่คาดว่าจะต้องจ่ายเพื่อการแก้ไขข้อบกพร่องของสินค้าที่ขายไปเป็นหนี้สิน

61. ภาระผูกพันในปัจจุบันต้องแยกออกจากภาระผูกพันในอนาคตอย่างชัดเจน การที่ฝ่ายบริหารของกิจการเพียงแต่ตัดสินใจที่จะจัดหาสินทรัพย์ ไม่ถือว่าภาระผูกพันในปัจจุบันเกิดขึ้นแล้วภาระผูกพันจะเกิดขึ้นเมื่อกิจการได้รับมอบสินทรัพย์หรือเมื่อได้ทำสัญญาจัดหาสินทรัพย์ที่มิอาจยกเลิกได้ ในกรณีหลัง ลักษณะของสัญญาที่ไม่สามารถยกเลิกได้ ก่อให้เกิดผลเสียหายทางเศรษฐกิจต่อกิจการหากกิจการไม่ปฏิบัติตามสัญญา ตัวอย่างเช่น กิจการต้องจ่ายค่าปรับเป็นจำนวนมากซึ่งเป็นผลทำให้กิจการไม่อาจหลีกเลี่ยงการสูญเสียทรัพยากรไปให้คู่สัญญาได้

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62. ตามปกติกิจการต้องสละทรัพยากรที่มีประโยชน์เชิงเศรษฐกิจเพื่อชำระภาระผูกพันในปัจจุบันตามข้อกำหนดในสัญญา อย่างไรก็ตามการชำระภาระผูกพันในปัจจุบันอาจเกิดได้หลายลักษณะเช่น

62.1 การจ่ายเงินสด

62.2 การโอนสินทรัพย์อื่น

62.3 การให้บริการ

62.4 การเปลี่ยนภาระผูกพันเดิมเป็นภาระผูกพันใหม่

62.5 การแปลงหนี้ให้เป็นทุน

นอกจากนี้ภาระผูกพันอาจสิ้นสุดด้วยวิธีอื่น เช่น การที่เจ้าหนี้ยกหนี้ให้ เป็นต้น

63. หนี้สินเป็นผลของรายการและเหตุการณ์ทางบัญชีในอดีต ดังนั้น การได้มาซึ่งสินค้าหรือบริการจึงก่อให้เกิดเจ้าหนี้การค้าหากกิจการไม่ได้จ่ายล่วงหน้าหรือชำระทันทีเมื่อส่งมอบ และการรับเงินกู้จากธนาคารก่อให้เกิดภาระผูกพันในการจ่ายคืนเงินกู้ ในกรณีที่กิจการมีการรับประกันสินค้าหลังการขาย กิจการอาจต้องรับรู้ค่าซ่อมแซมสินค้าที่อาจเกิดขึ้นในอนาคตจากยอดขายจริงเป็นหนี้สิน ซึ่งในกรณีนี้การขายสินค้าในอดีตถือเป็นรายการที่ก่อให้เกิดหนี้สิน

64. หนี้สินบางประเภทจะวัดค่าได้จากการประมาณเท่านั้น กิจการเรียกหนี้สินประเภทนี้ว่าประมาณการหนี้สิน ประมาณการหนี้สินจะถือเป็นหนี้สินหากเกี่ยวข้องกับภาระผูกพันในปัจจุบันและเป็นไปตามคำนิยามที่กำหนดไว้แม้ว่าจะได้จากการประมาณก็ตาม ตัวอย่างของประมาณการหนี้สิน ได้แก่ ประมาณการหนี้สินภายใต้สัญญารับประกัน และประมาณการหนี้สินภายใต้โครงการเงินบำนาญ

ส่วนของเจ้าของ

65. ย่อหน้าที่ 49 ได้ให้คำนิยามของส่วนของเจ้าของว่าเป็นส่วนได้เสียคงเหลือซึ่งอาจจำแนกเป็นประเภทย่อยและแสดงแยกจากกันในงบดุล เช่น ส่วนของเจ้าของสำหรับกิจการที่เป็นบริษัทอาจจำแนกเป็นเงินทุนที่ได้จากผู้ถือหุ้น กำไรสะสม สำรองที่จัดสรรจากกำไรสะสม และสำรองการปรับปรุงเพื่อการรักษาระดับทุน การจำแนกประเภทดังกล่าวเกี่ยวกับการตัดสินใจของผู้ใช้งบการเงิน เนื่องจากชี้ให้เห็นถึงข้อจำกัดทางกฎหมายหรือข้อจำกัดอื่นที่มีต่อความสามารถของกิจการในการแบ่งปันส่วนทุนให้กับเจ้าของหรือการนำส่วนทุนไปใช้ การจำแนกประเภทยังสะท้อนให้เห็นถึงข้อเท็จจริงที่ว่าผู้มีส่วนได้เสียที่เป็นเจ้าของอาจมีสิทธิที่แตกต่างกันในการได้รับเงินปันผลและการจ่ายคืนเงินลงทุน

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66. บางครั้งกิจการอาจกันเงินสำรองตามข้อบังคับหรือตามกฎหมายซึ่งเป็นมาตรการเพิ่มติมเพื่อป้องกันผลกระทบจากการขาดทุนที่มีต่อกิจการและเจ้าหนี้ การกันสำรองทั้งที่เป็นไปตามข้อบังคับหรือตามกฎหมายล้วนเป็นข้อมูลที่เกี่ยวข้องกับการตัดสินใจของผู้ใช้งบการเงิน การกันสำรองดังกล่าวถือเป็นการจัดสรรกำไรสะสมและไม่ถือเป็นค่าใช้จ่าย

67. เนื่องจากส่วนของเจ้าของถือเป็นส่วนได้เสียคงเหลือในสินทรัพย์หลังจากหักหนี้สินทั้งสิ้นออกแล้ว ส่วนของเจ้าของทั้งหมดที่แสดงในงบดุลจึงขึ้นอยู่กับการวัดมูลค่าของสินทรัพย์และหนี้สิน โดยทั่วไปจึงเป็นการยากที่ทุนทั้งหมดของกิจการจะเท่ากับราคาตลาดรวมของหุ้นที่ออกหรือเท่ากับจำนวนเงินรวมที่จะได้จากการขายสินทรัพย์สุทธิเป็นส่วน ๆ หรือขายกิจการทั้งหมดขณะที่กิจการยังมีการดำเนินงานต่อเนื่อง

68. การประกอบพาณิชกรรมหรืออุตสาหกรรมของกิจการอาจอยู่ในรูปเจ้าของคนเดียว ห้างหุ้นส่วนหรือรัฐวิสาหกิจ กิจการดังกล่าวมักมีโครงสร้างทางกฎหมายและข้อบังคับที่แตกต่างจากบริษัท เช่น อาจไม่มีข้อจำกัดมากนักในการแบ่งปันส่วนทุนให้กับเจ้าของ อย่างไรก็ตาม คำนิยามของส่วนของเจ้าของและเรื่องอื่นที่เกี่ยวข้องซึ่งกำหนดอยู่ในแม่บทการบัญชีนี้ถือว่าเหมาะสมที่จะนำมาใช้กับกิจการดังกล่าวได้เช่นกัน

ผลการดำเนินงาน

69. กำไรมักใช้วัดผลการดำเนินงานหรือใช้เป็นเกณฑ์ในการวัดผลด้านอื่น เช่น ผลตอบแทนจากการลงทุนหรือกำไรต่อหุ้น องค์ประกอบที่เกี่ยวข้องโดยตรงกับการวัดกำไรคือ รายได้และค่าใช้จ่าย การรับรู้และการวัดค่าของรายได้และค่าใช้จ่ายส่วนหนึ่งขึ้นอยู่กับแนวคิดเรื่องทุนและการรักษาระดับทุนที่กิจการใช้ในการจัดทำงบการเงิน แนวคิดนี้ได้กล่าวไว้ในย่อหน้าที่ 102 ถึง 110

70. องค์ประกอบที่เกี่ยวข้องโดยตรงกับการวัดผลการดำเนินงาน ได้แก่ รายได้และค่าใช้จ่าย คำนิยามขององค์ประกอบดังกล่าวกำหนดไว้ดังนี้

70.1 รายได้ หมายถึง การเพิ่มขึ้นของประโยชน์เชิงเศรษฐกิจในรอบระยะเวลาบัญชีในรูปกระแสเข้าหรือการเพิ่มค่าของสินทรัพย์หรือการลดลงของหนี้สิน อันส่งผลให้ส่วนของเจ้าของเพิ่มขึ้น ทั้งนี้ไม่รวมถึงเงินทุนที่ได้รับจากผู้มีส่วนร่วมในส่วนของเจ้าของ

70.2 ค่าใช้จ่าย หมายถึง การลดลงของประโยชน์เชิงเศรษฐกิจในรอบระยะเวลาบัญชีในรูปกระแสออกหรือการลดค่าของสินทรัพย์ หรือการเพิ่มขึ้นของหนี้สินอันส่งผลให้ส่วนของเจ้าของลดลง ทั้งนี้ไม่รวมถึงการแบ่งปันส่วนทุนให้กับผู้มีส่วนร่วมในส่วนของเจ้าของ

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71. คำนิยามของรายได้และค่าใช้จ่ายกำหนดลักษณะที่สำคัญ แต่มิได้กำหนดเกณฑ์การรับรู้รายการในงบกำไรขาดทุน เกณฑ์การรับรู้รายได้และค่าใช้จ่ายจะกล่าวไว้ในย่อหน้าที่ 82 ถึง 98

72. กิจการอาจแสดงรายได้และค่าใช้จ่ายในงบกำไรขาดทุนได้ในหลายลักษณะเพื่อเป็นการให้ข้อมูลที่เกี่ยวข้องกับการตัดสินใจเชิงเศรษฐกิจ ตัวอย่างเช่น การแยกรายได้หรือค่าใช้จ่ายที่เกิดจากการดำเนินกิจกรรมตามปกติกับที่มิได้เกิดจากการดำเนินกิจกรรมตามปกติออกจากกันเป็นวิธีปฏิบัติโดยทั่วไป ด้วยเหตุผลว่า แหล่งที่มาของรายการเกี่ยวข้องกับการประเมินความสามารถของกิจการในการก่อให้เกิดเงินสดและรายการเทียบเท่าเงินสดในอนาคต การแยกรายได้หรือค่าใช้จ่ายออกจากกันตามเกณฑ์นี้ได้พิจารณาถึงลักษณะและการดำเนินงานของกิจการเป็นหลัก อย่างไรก็ตาม รายการที่เกิดขึ้นจากกิจกรรมตามปกติของกิจการหนึ่ง อาจเป็นรายการที่ไม่ปกติของอีกกิจการหนึ่ง

73. การแยกรายการที่เป็นรายได้และค่าใช้จ่ายออกจากกันและการรวมรายการเหล่านั้นเข้าด้วยกันในหลายลักษณะทำให้เห็นภาพของผลการดำเนินงานในแง่มุมที่ต่างกันและทำให้เห็นผลรวมในแต่ละระดับ ตัวอย่างเช่น งบการเงินสามารถแสดงกำไรขั้นต้น กำไรจากการดำเนินงานก่อนภาษี กำไรจากการดำเนินงานหลังภาษี และกำไรสุทธิ

รายได้

74. รายได้ตามคำนิยามรวมถึง รายการกำไรและรายได้ที่เกิดจากการดำเนินกิจกรรมตามปกติของกิจการ รายได้ดังกล่าว ได้แก่ รายได้จากการขาย รายได้ค่าธรรมเนียม รายได้ดอกเบี้ย รายได้เงินปันผล รายได้ค่าเช่า ฯลฯ

75. รายการกำไร หมายถึง รายการที่เป็นไปตามคำนิยามของรายได้และอาจเกิดจากกิจกรรมตามปกติของกิจการหรือไม่ก็ได้ รายการกำไรแสดงถึงการเพิ่มขึ้นของประโยชน์เชิงเศรษฐกิจจึงมีลักษณะไม่แตกต่างไปจากรายได้ ดังนั้น แม่บทการบัญชีนี้ไม่ถือรายการกำไรเป็นองค์ประกอบแยกต่างหาก

76. รายการกำไรอาจเกิดจากการขายสินทรัพย์ระยะยาว คำนิยามของรายได้รวมถึง รายการกำไรที่ยังไม่เกิดขึ้น เช่น รายการกำไรจากการตีราคาหลักทรัพย์ในความต้องการของตลาดและรายการกำไรจากการตีราคาของสินทรัพย์ระยะยาวเพิ่มตามปกติ รายการกำไรจะแยกแสดงต่างหากเมื่อมีการรับรู้ในงบกำไรขาดทุนเนื่องจากข้อมูลดังกล่าวเป็นประโยชน์ต่อการตัดสินใจเชิงเศรษฐกิจ รายการกำไรควรแสดงสุทธิจากค่าใช้จ่ายที่เกี่ยวข้อง

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77. รายได้ก่อให้เกิดการได้มาซึ่งสินทรัพย์หรือการเพิ่มค่าของสินทรัพย์หลายประเภท ตัวอย่างเช่น เงินสด ลูกหนี้ สินค้าหรือบริการที่ได้มาจากการแลกเปลี่ยนกับสินค้าหรือบริการอื่น การชำระหนี้สินอาจก่อให้เกิดรายได้ เช่น กิจการอาจส่งมอบสินค้าหรือให้บริการแก่ผู้ให้กู้เพื่อชำระหนี้สิน

ค่าใช้จ่าย

78. ค่าใช้จ่ายตามคำนิยามรวมถึง รายการขาดทุนและค่าใช้จ่ายที่เกิดจากการดำเนินกิจกรรมตามปกติของกิจการ ค่าใช้จ่ายดังกล่าว ได้แก่ ต้นทุนขาย ค่าแรง ค่าเสื่อมราคา ฯลฯ ค่าใช้จ่ายมักอยู่ในรูปกระแสออกหรือการเสื่อมค่าของสินทรัพย์ เช่น เงินสดและรายการเทียบเท่าเงินสด สินค้าคงเหลือ ที่ดิน อาคาร และอุปกรณ์

79. รายการขาดทุน หมายถึง รายการที่เป็นไปตามคำนิยามของค่าใช้จ่ายและอาจเกิดจากกิจกรรมตามปกติของกิจการหรือไม่ก็ได้ รายการขาดทุนแสดงถึงการลดลงของประโยชน์เชิงเศรษฐกิจจึงมีลักษณะไม่แตกต่างไปจากค่าใช้จ่าย ดังนั้น แม่บทการบัญชีนี้ไม่ถือรายการขาดทุนเป็นองค์ประกอบแยกต่างหาก

80. รายการขาดทุนรวมถึง รายการขาดทุนที่เกิดจากภัยธรรมชาติ เช่น ไฟไหม้ น้ำท่วม และรายการขาดทุนที่เกิดจากการขายสินทรัพย์ระยะยาว คำนิยามของค่าใช้จ่ายรวมถึง รายการขาดทุนที่ยังไม่เกิดขึ้น เช่น รายการขาดทุนจากอัตราแลกเปลี่ยนเงินตราต่างประเทศ ตามปกติรายการขาดทุนจะแยกแสดงต่างหากเมื่อมีการรับรู้ในงบกำไรขาดทุนเนื่องจากข้อมูลดังกล่าวเป็นประโยชน์ต่อการตัดสินใจเชิงเศรษฐกิจ รายการขาดทุนควรแสดงสุทธิจากรายได้ที่เกี่ยวข้อง

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การปรับปรุงเพื่อการรักษาระดับทุน

81. การตีราคาใหม่หรือการปรับมูลค่าของสินทรัพย์และหนี้สินก่อให้เกิดการเพิ่มขึ้นหรือลดลงของส่วนของเจ้าของ การเพิ่มขึ้นหรือลดลงนี้แม้ว่าจะเป็นไปตามคำนิยามของรายได้และค่าใช้จ่ายแต่ไม่รวมอยู่ในงบกำไรขาดทุน การเพิ่มขึ้นหรือลดลงตามแนวคิดของการรักษาระดับทุนจะรวมอยู่ในส่วนของเจ้าของภายใต้บัญชีการปรับปรุงเพื่อการรักษาระดับทุน หรือส่วนเกินทุนจากการตีราคาสินทรัพย์ แนวคิดของการรักษาระดับทุนได้กล่าวไว้ในย่อหน้าที่ 102 ถึง 110

การรับรู้องค์ประกอบของงบการเงิน

82. การรับรู้รายการ หมายถึง การรวมรายการเข้าเป็นส่วนหนึ่งของงบดุลและงบกำไรขาดทุนหากรายการนั้นเป็นไปตามคำนิยามขององค์ประกอบและเข้าเกณฑ์การรับรู้รายการซึ่งระบุในย่อหน้าที่ 83 การรับรู้ คือ การแสดงรายการในงบดุลหรืองบกำไรขาดทุนด้วยตัวอักษรและจำนวนเงินพร้อมกับรวมจำนวนเงินนั้นในยอดรวมของงบการเงินดังกล่าว การที่กิจการมิได้รับรู้รายการในงบดุลหรืองบกำไรขาดทุนทั้งที่เข้าเกณฑ์การรับรู้รายการ ถือเป็นข้อผิดพลาดที่ไม่อาจแก้ไขได้ด้วยการเปิดเผยข้อมูลในหมายเหตุประกอบงบการเงินหรือคำอธิบายเพิ่มเติม

83. รายการที่เป็นไปตามคำนิยามขององค์ประกอบให้รับรู้เมื่อเข้าเงื่อนไขทุกข้อ ดังต่อไปนี้
    83.1 มีความเป็นไปได้ค่อนข้างแน่ที่ประโยชน์เชิงเศรษฐกิจในอนาคตของรายการดังกล่าวจะเข้าหรือออกจากกิจการ
    83.2 รายการดังกล่าวมีราคาทุนหรือมูลค่าที่สามารถวัดได้อย่างน่าเชื่อถือ

84. ในการประเมินว่ารายการใดเข้าเกณฑ์การรับรู้ในงบการเงิน ให้พิจารณาถึงความมีนัยสำคัญตามที่กล่าวไว้ในย่อหน้าที่ 29 และ 30 ความสัมพันธ์ระหว่างองค์ประกอบต่าง ๆ แสดงให้เห็นว่ารายการที่เป็นไปตามคำนิยามและเข้าเกณฑ์การรับรู้ขององค์ประกอบหนึ่งจะทำให้เกิดการรับรู้ขององค์ประกอบอื่นโดยปริยาย เช่น การรับรู้รายได้หรือหนี้สินโดยปริยาย

ความน่าจะเป็นของประโยชน์เชิงเศรษฐกิจในอนาคต

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85. เงื่อนไขข้อแรกของเกณฑ์การรับรู้รายการใช้แนวคิดของความน่าจะเป็นเพื่ออ้างอิงถึงระดับความแน่นอนที่ประโยชน์เชิงเศรษฐกิจในอนาคตของรายการจะเข้าหรือออกจากกิจการ แนวคิดนี้เหมาะที่จะใช้ประเมินความไม่แน่นอนของสภาพแวดล้อมที่กิจการดำเนินงานอยู่ การประเมินระดับความไม่แน่นอนของประโยชน์เชิงเศรษฐกิจในอนาคตทำได้โดยอาศัยหลักฐานที่มีอยู่ในขณะจัดทำงบการเงิน เช่น หากมีความเป็นไปได้ค่อนข้างแน่ที่ลูกหนี้จะชำระหนี้ ก็ถือเป็นการสมเหตุสมผลที่กิจการจะรับรู้ลูกหนี้เป็นสินทรัพย์หากไม่มีหลักฐานเป็นอย่างอื่น ในกรณีที่ลูกหนี้มีจำนวนมากรายโอกาสที่ลูกหนี้บางรายจะผิดนัดชำระหนี้จึงมีความเป็นไปได้ค่อนข้างแน่ ดังนั้น กิจการควรรับรู้ลูกหนี้ที่คาดว่าจะผิดนัดเป็นค่าใช้จ่ายเนื่องจากกิจการคาดว่าประโยชน์เชิงเศรษฐกิจจากลูกหนี้นั้นจะลดลง

ความเชื่อถือได้ของการวัดมูลค่า

86. เงื่อนไขข้อที่สองของเกณฑ์การรับรู้รายการคือ รายการนั้นควรมีราคาทุนหรือมูลค่าที่สามารถวัดได้อย่างน่าเชื่อถือตามที่กล่าวไว้ในย่อหน้าที่ 31 ถึง 38 ในบางกรณี ราคาทุนหรือมูลค่านั้นได้มาจากการประมาณ การประมาณที่สมเหตุสมผลเป็นส่วนสำคัญในการจัดทำงบการเงินและไม่ทำให้งบการเงินขาดความน่าเชื่อถือ อย่างไรก็ตาม กิจการไม่ควรรับรู้รายการในงบดุลหรืองบกำไรขาดทุนหากกิจการไม่สามารถประมาณมูลค่าของรายการนั้นได้อย่างสมเหตุสมผล ตัวอย่างเช่น ค่าเสียหายที่คาดว่าจะได้รับจากการฟ้องร้องอาจเป็นไปตามคำนิยามของสินทรัพย์และรายได้ พร้อมทั้งเข้าเงื่อนไขของเกณฑ์การรับรู้รายการในเรื่องความน่าจะเป็น แต่ถ้าหากเป็นไปไม่ได้ที่กิจการจะประมาณค่าเสียหายจากการฟ้องร้องได้อย่างน่าเชื่อถือ กิจการไม่ควรรับรู้รายการนั้นเป็นสินทรัพย์หรือรายได้ แต่ควรเปิดเผยกรณีฟ้องร้องที่เกิดขึ้นในหมายเหตุประกอบงบการเงินหรือคำอธิบายเพิ่มเติม

87. รายการที่ไม่เข้าเกณฑ์การรับรู้ตามย่อหน้าที่ 83 ณ เวลาหนึ่งอาจเปลี่ยนมาเข้าเกณฑ์การรับรู้ในเวลาต่อมาเนื่องจากสถานการณ์เปลี่ยนไป

88. รายการที่เป็นไปตามคำนิยามขององค์ประกอบแต่ไม่เข้าเกณฑ์การรับรู้ควรเปิดเผยในหมายเหตุประกอบงบการเงินหรือคำอธิบายเพิ่มเติม หากรายการนั้นมีความเกี่ยวข้องกับการตัดสินใจของผู้ใช้งบการเงินในการพิจารณาฐานะการเงิน ผลการดำเนินงาน และการเปลี่ยนแปลงฐานะการเงินของกิจการ

การรับรู้สินทรัพย์

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89. สินทรัพย์ควรรับรู้ในงบดุลเมื่อมีความเป็นไปได้ค่อนข้างแน่ที่ประโยชน์เชิงเศรษฐกิจในอนาคตจะเข้าสู่กิจการ และสินทรัพย์นั้นมีราคาทุนหรือมูลค่าที่สามารถวัดได้อย่างน่าเชื่อถือ

90. สินทรัพย์ไม่ควรรับรู้ในงบดุลหากไม่น่าเป็นไปได้ที่กิจการจะได้รับประโยชน์เชิงเศรษฐกิจจากรายจ่ายที่เกิดขึ้นเกินกว่ารอบระยะเวลาบัญชีที่เกิดรายจ่ายนั้น รายจ่ายดังกล่าวควรรับรู้เป็นค่าใช้จ่ายในงบกำไรขาดทุน รายจ่ายที่เกิดขึ้นมิได้แสดงว่าฝ่ายบริหารมิได้มุ่งหวังประโยชน์เชิงเศรษฐกิจในอนาคตหรือแสดงว่าฝ่ายบริหารผิดพลาดในการจ่ายรายจ่ายนั้นเพียงแต่แสดงว่าระดับความแน่นอนที่กิจการจะ

ได้รับประโยชน์เชิงเศรษฐกิจเกินกว่ารอบระยะเวลาบัญชีปัจจุบันนั้นไม่เพียงพอที่กิจการจะรับรู้รายจ่ายเป็นสินทรัพย์ในงบดุล

การรับรู้หนี้สิน

91. หนี้สินควรรับรู้ในงบดุลเมื่อมีความเป็นไปได้ค่อนข้างแน่ที่ประโยชน์เชิงเศรษฐกิจของทรัพยากรจะออกจากกิจการเพื่อชำระภาระผูกพันในปัจจุบัน และเมื่อมูลค่าของภาระผูกพันที่ต้องชำระนั้นสามารถวัดได้อย่างน่าเชื่อถือ กิจการไม่ต้องรับรู้ภาระผูกพันเป็นหนี้สินในงบดุล หากคู่สัญญายังมิได้ปฏิบัติตามภาระผูกพันในสัญญา เช่น กิจการไม่ต้องรับรู้รายการที่เกี่ยวกับการสั่งซื้อสินค้าที่ยังมิได้รับเป็นหนี้สินในงบดุล แต่ในบางกรณีภาระผูกพันดังกล่าวอาจเป็นหนี้สินตามคำนิยามและเข้าเกณฑ์การรับรู้รายการซึ่งกิจการควรรับรู้ในงบดุล ในกรณีนี้การรับรู้หนี้สินอาจทำให้เกิดการรับรู้สินทรัพย์หรือค่าใช้จ่ายในเวลาเดียวกัน

การรับรู้รายได้

92. กิจการควรรับรู้รายได้ในงบกำไรขาดทุนเมื่อประโยชน์เชิงเศรษฐกิจในอนาคตเพิ่มขึ้นเนื่องจากการเพิ่มขึ้นของสินทรัพย์หรือการลดลงของหนี้สินและเมื่อกิจการสามารถวัดค่าของประโยชน์เชิงเศรษฐกิจในอนาคตได้อย่างน่าเชื่อถือ อีกนัยหนึ่งคือ การรับรู้รายได้จะเกิดขึ้นพร้อมกับการรับรู้ส่วนที่เพิ่มขึ้นของสินทรัพย์หรือส่วนที่ลดลงของหนี้สิน ตัวอย่างเช่น สินทรัพย์สุทธิจะเพิ่มขึ้นเมื่อกิจการขายสินค้าหรือให้บริการ หรือหนี้สินจะลดลงเมื่อเจ้าหนี้ยกหนี้ให้

93. แม่บทการบัญชีนี้กำหนดเกณฑ์การรับรู้รายได้ไว้เป็นขั้นตอนเพื่อประโยชน์ในทางปฏิบัติ ตัวอย่างเช่น รายได้จะรับรู้ต่อเมื่อเกิดขึ้นแล้ว ขั้นตอนดังกล่าวกำหนดให้กิจการรับรู้รายได้เฉพาะรายการที่มีความแน่นอนเพียงพอที่จะเกิดขึ้นและสามารถวัดค่าได้อย่างน่าเชื่อถือ

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94. กิจการควรรับรู้ค่าใช้จ่ายในงบกำไรขาดทุนเมื่อประโยชน์เชิงเศรษฐกิจในอนาคตลดลงเนื่องจากการลดลงของสินทรัพย์หรือการเพิ่มขึ้นของหนี้สิน และเมื่อกิจการสามารถวัดค่าของประโยชน์เชิงเศรษฐกิจในอนาคตได้อย่างน่าเชื่อถือ อีกนัยหนึ่งการรับรู้ค่าใช้จ่ายจะเกิดขึ้นพร้อมกับการรับรู้ส่วนที่เพิ่มขึ้น

ของหนี้สินหรือส่วนที่ลดลงของสินทรัพย์ ตัวอย่างเช่น การตั้งค่าแรงค้างจ่ายหรือการตัดค่าเสื่อมราคาของอุปกรณ์

95. ค่าใช้จ่ายให้รับรู้ในงบกำไรขาดทุนโดยใช้เกณฑ์ความเกี่ยวพันโดยตรงระหว่างต้นทุนที่เกิดขึ้นกับรายได้ที่ได้มาจากรายการเดียวกัน เกณฑ์นี้ เรียกว่า การจับคู่รายได้และค่าใช้จ่าย ซึ่งกำหนดให้กิจการรับรู้รายได้พร้อมกับค่าใช้จ่ายที่เกิดขึ้นจากรายการหรือเหตุการณ์ทางบัญชีเดียวกัน ตัวอย่างเช่น กิจการจะรับรู้ต้นทุนขายพร้อมกับรายได้ที่เกิดจากการขายสินค้า อย่างไรก็ตาม แม่บทการบัญชีนี้ไม่อนุญาตให้นำแนวคิดของการจับคู่รายได้และค่าใช้จ่ายมาใช้เพื่อบันทึกรายการในงบดุลหากรายการนั้นไม่เป็นสินทรัพย์หรือหนี้สินตามคำนิยาม

96. เมื่อกิจการคาดว่าประโยชน์เชิงเศรษฐกิจของรายการจะเกิดในหลายรอบระยะเวลาบัญชีและค่าใช้จ่ายที่เกิดขึ้นไม่สัมพันธ์โดยตรงกับรายได้ กิจการควรรับรู้ค่าใช้จ่ายนั้นในงบกำไรขาดทุนตามเกณฑ์การปันส่วนอย่างเป็นระบบและสมเหตุสมผล การปันส่วนเป็นสิ่งจำเป็นในการรับรู้ค่าใช้จ่ายที่เกี่ยวกับการใช้สินทรัพย์ เช่น อาคาร อุปกรณ์ ค่าความนิยม สิทธิบัตร และเครื่องหมายการค้า ค่าใช้จ่ายดังกล่าว เรียกว่า ค่าเสื่อมราคาหรือค่าตัดจำหน่าย ขั้นตอนในการปันส่วนมุ่งที่จะรับรู้ค่าใช้จ่ายในรอบระยะเวลาบัญชีที่กิจการได้รับประโยชน์เชิงเศรษฐกิจของสินทรัพย์หรือในรอบระยะเวลาบัญชีที่ประโยชน์เชิงเศรษฐกิจดังกล่าวหมดอายุลง

97. กิจการควรรับรู้ค่าใช้จ่ายในงบกำไรขาดทุนทันทีที่รายจ่ายนั้นไม่ก่อให้เกิดประโยชน์เชิงเศรษฐกิจในอนาคต หรือเมื่อประโยชน์เชิงเศรษฐกิจในอนาคตส่วนนั้นไม่เข้าเกณฑ์การรับรู้เป็นสินทรัพย์ในงบดุลอีกต่อไป

98. กิจการควรรับรู้ค่าใช้จ่ายในงบกำไรขาดทุนเมื่อกิจการต้องรับรู้หนี้สินโดยไม่มีการรับรู้สินทรัพย์ เช่น การรับรู้หนี้สินที่เกิดจากการรับประกันสินค้า

ลิขสิทธิ์มหาวิทยาลัยเชียงใหม่

การวัดมูลค่าองค์ประกอบของงบการเงิน

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99. การวัดมูลค่า คือ การกำหนดจำนวนที่เป็นตัวเงินเพื่อรับรู้องค์ประกอบของงบการเงินในงบดุลและงบกำไรขาดทุน การวัดมูลค่าจะเกี่ยวข้องกับการเลือกใช้เกณฑ์ในการวัดค่าที่กล่าวไว้ในย่อหน้าที่ 100

100. งบการเงินใช้เกณฑ์ในการวัดค่าต่าง ๆ ในสัดส่วนที่แตกต่างกันและในลักษณะที่ไม่เหมือนกัน เกณฑ์ในการวัดค่าต่างๆ ได้แก่

100.1 ราคาทุนเดิม ให้ความหมายถึงการบันทึกสินทรัพย์ด้วยจำนวนเงินสดหรือรายการเทียบเท่าเงินสดที่จ่ายไปหรือบันทึกด้วยมูลค่ายุติธรรมของสิ่งที่นำไปแลกสินทรัพย์มา ณ เวลาที่ได้มาซึ่งสินทรัพย์นั้น และการบันทึกหนี้สินด้วยจำนวนเงินที่ได้รับจากการก่อภาระผูกพันหรือบันทึกด้วยจำนวนเงินสดหรือรายการเทียบเท่าเงินสดที่คาดว่าจะต้องจ่ายเพื่อชำระหนี้สินที่เกิดจากการดำเนินงานตามปกติของกิจการ เช่น ภาษีเงินได้

100.2 ราคาทุนปัจจุบัน ให้ความหมายถึงการแสดงสินทรัพย์ด้วยจำนวนเงินสดหรือรายการเทียบเท่าเงินสดที่ต้องจ่ายในขณะนั้นเพื่อให้ได้มาซึ่งสินทรัพย์ชนิดเดียวกันหรือสินทรัพย์ที่เท่าเทียมกัน และการแสดงหนี้สินด้วยจำนวนเงินสดหรือรายการเทียบเท่าเงินสดที่ต้องใช้ชำระภาระผูกพันในขณะนั้น

100.3 มูลค่าที่จะได้รับ ให้ความหมายถึงการแสดงสินทรัพย์ด้วยจำนวนเงินสดหรือรายการเทียบเท่าเงินสดที่อาจได้มาในขณะนั้นหากกิจการขายสินทรัพย์โดยมิใช่การบังคับขายและการแสดงหนี้สินด้วยมูลค่าที่ต้องจ่ายคืนหรือด้วยจำนวนเงินสดหรือรายการเทียบเท่าเงินสดที่คาดว่าจะต้องจ่ายเพื่อชำระหนี้สินที่เกิดจากการดำเนินงานตามปกติ

100.4 มูลค่าปัจจุบัน ให้ความหมายถึงการแสดงสินทรัพย์ด้วยมูลค่าปัจจุบันของกระแสเงินสดรับสุทธิในอนาคตซึ่งคาดว่าจะได้รับในการดำเนินงานตามปกติของกิจการ และการแสดงหนี้สินด้วยมูลค่าปัจจุบันของกระแสเงินสดจ่ายสุทธิซึ่งคาดว่าจะต้องจ่ายในการชำระหนี้สินภายใต้การดำเนินงานตามปกติของกิจการ

101. เกณฑ์ในการวัดมูลค่าที่กิจการส่วนใหญ่ใช้ในการจัดทำงบการเงินคือ ราคาทุนเดิมโดยใช้ร่วมกับเกณฑ์อื่น ๆ เช่น สินค้าคงเหลือแสดงด้วยราคาทุนหรือมูลค่าสุทธิที่จะได้รับแล้วแต่ราคาใดจะต่ำกว่า หลักทรัพย์ในความต้องการของตลาดอาจแสดงด้วยราคาตลาด และหนี้สินเงินบำนาญแสดงด้วยมูลค่าปัจจุบัน นอกจากนั้น กิจการบางแห่งใช้เกณฑ์ราคาทุนปัจจุบันแทนเกณฑ์ราคาทุนเดิมเนื่องจากราคาทุนเดิมไม่สามารถสะท้อนให้เห็นถึงผลกระทบจากการเปลี่ยนแปลงระดับราคาของสินทรัพย์ที่ไม่เป็นตัวเงิน

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แนวคิดเกี่ยวกับทุนและการรักษาระดับทุน

แนวคิดเกี่ยวกับทุน

102. กิจการส่วนใหญ่นำแนวคิดทางการเงินที่เกี่ยวกับทุนมาใช้ในการจัดทำงบการเงิน ซึ่งตามแนวคิดนี้ทุนทางการเงินซึ่งรวมถึงเงินที่ลงทุนหรืออำนาจซื้อที่ลงทุนมีความหมายเทียบเท่ากับสินทรัพย์สุทธิหรือส่วนของเจ้าของ แนวคิดเกี่ยวกับทุนอีกประการหนึ่งซึ่งอาจนำมาใช้ในการจัดทำงบการเงินคือแนวคิดทางการผลิตที่เกี่ยวกับทุน ตามแนวคิดนี้ ทุนอยู่ในรูปของกำลังการผลิตที่สามารถใช้ในการผลิตหรือที่ใช้ผลิตจริงและสามารถวัดได้ในรูปของผลผลิต เป็นต้นว่า จำนวนที่ผลิตได้ต่อวัน

103. กิจการควรนำแนวคิดเกี่ยวกับทุนที่เหมาะสมมาใช้ในการจัดทำงบการเงินโดยคำนึงถึงความต้องการของผู้ใช้งบการเงินเป็นหลัก ดังนั้น หากผู้ใช้งบการเงินให้ความสนใจในการรักษาระดับของทุนที่ลงไปในรูปของตัวเงินหรือในรูปของอำนาจซื้อ กิจการควรนำแนวคิดทางการเงินที่เกี่ยวกับทุนมาใช้ แต่ถ้าผู้ใช้งบการเงินให้ความสนใจกับกำลังการผลิตที่กิจการสามารถใช้ในการผลิตแนวคิดทางการผลิตที่เกี่ยวกับทุนจะเหมาะสมกว่า แนวคิดที่เลือกใช้ชี้ให้เห็นเป้าหมายที่ต้องการในการกำหนดกำไร แม้ว่าในการปฏิบัติอาจมีความยุ่งยากในการวัดมูลค่าขณะที่นำแนวคิดดังกล่าวมาใช้

แนวคิดเกี่ยวกับการรักษาระดับทุนและการวัดผลกำไร

104. แนวคิดเกี่ยวกับเงินทุนในย่อหน้าที่ 102 ทำให้เกิดแนวคิดเกี่ยวกับการรักษาระดับทุนดังต่อไปนี้

104.1 การรักษาระดับทุนทางการเงิน ตามแนวคิดนี้กำไรเกิดขึ้นเมื่อจำนวนที่เป็นตัวเงินของสินทรัพย์สุทธิเมื่อสิ้นรอบระยะเวลาบัญชีสูงกว่าจำนวนที่เป็นตัวเงินของสินทรัพย์สุทธิเมื่อเริ่มรอบระยะเวลาบัญชี จำนวนที่เพิ่มขึ้นนี้จะต้องไม่รวมรายการที่เกิดขึ้นระหว่างกิจการกับเจ้าของในระหว่างรอบบัญชีนั้น เช่น การแบ่งปันส่วนทุนให้กับเจ้าของหรือเงินทุนที่ได้รับจากเจ้าของ การรักษาระดับทุนทางการเงินสามารถวัดค่าได้ในลักษณะของหน่วยเงินตามอำนาจซื้อเดิมหรือหน่วยเงินตามอำนาจซื้อคงที่

104.2 การรักษาระดับทุนทางการผลิต ตามแนวคิดนี้กำไรเกิดขึ้นเมื่อกำลังการผลิตที่กิจการสามารถใช้ในการผลิตหรือที่ใช้ผลิตจริงเมื่อสิ้นรอบระยะเวลาบัญชีสูงกว่ากำลังการผลิตเมื่อเริ่มรอบระยะเวลาบัญชี ซึ่งกำลังการผลิตอาจแสดงในรูปของทรัพยากรหรือเงินทุนที่ต้องจ่ายเพื่อให้ได้กำลังการผลิตนั้น ทั้งนี้ไม่รวมการแบ่งปันส่วนทุนให้กับเจ้าของหรือเงินทุนที่รับจากเจ้าของในรอบระยะเวลาเดียวกัน

105. แนวคิดเกี่ยวกับการรักษาระดับทุนให้ความสำคัญกับคำนิยามที่กิจการกำหนดเกี่ยวกับทุนที่กิจการต้องการรักษาระดับ เนื่องจากแนวคิดนี้ได้เชื่อมโยงแนวคิดเกี่ยวกับทุนเข้ากับแนวคิดเกี่ยวกับกำไร

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รวมทั้งได้กำหนดจุดอ้างอิงเพื่อวัดกำไร ดังนั้น แนวคิดนี้จึงเป็นพื้นฐานในการจำแนกความแตกต่างระหว่างผลตอบแทนจากการลงทุน (ซึ่งนับเป็นผลตอบแทนเกินทุนที่ลงไป) กับผลที่ได้รับจากเงินลงทุน (ซึ่งเป็นผลที่ได้รับไม่ว่าจะเกินทุนหรือไม่) แนวคิดนี้กำหนดว่ากำไรคือการเพิ่มขึ้นของสินทรัพย์เฉพาะส่วนที่เกินกว่าจำนวนเงินที่จำเป็นในการรักษาระดับทุนซึ่งถือว่าเป็นผลตอบแทนจากการลงทุน ดังนั้น กำไรคือจำนวนคงเหลือจากรายได้หักค่าใช้จ่าย (ซึ่งรวมรายการปรับปรุงเพื่อรักษาระดับทุนตามที่ควร) ในทางกลับกัน ขาดทุนคือจำนวนคงเหลือหากค่าใช้จ่ายสูงกว่ารายได้

106. แนวคิดเกี่ยวกับการรักษาระดับทุนทางการผลิตทำให้ต้องใช้ราคาทุนปัจจุบันเป็นเกณฑ์ในการวัดค่า ในขณะที่แนวคิดเกี่ยวกับการรักษาระดับทุนทางการเงินไม่ได้กำหนดให้ใช้เกณฑ์การวัดค่าแบบใดแบบหนึ่งโดยเฉพาะ ดังนั้น เกณฑ์การวัดค่าที่กิจการเลือกใช้จึงขึ้นอยู่กับประเภทของทุนทางการเงินที่กิจการต้องการรักษาระดับไว้

107. ความแตกต่างที่สำคัญระหว่างแนวคิดเกี่ยวกับการรักษาระดับทุนทั้งสองคือ การปฏิบัติเกี่ยวกับผลกระทบของการเปลี่ยนแปลงราคาสินทรัพย์และหนี้สินของกิจการโดยทั่วไป

108. กิจการสามารถรักษาระดับทุนได้หากจำนวนทุนเมื่อสิ้นงวดเท่ากับจำนวนทุนที่มีเมื่อเริ่มรอบระยะเวลา จำนวนเงินที่เกินกว่าทุนที่ต้องรักษาระดับไว้เมื่อเริ่มรอบระยะเวลาคือกำไรตามแนวคิดเกี่ยวกับการรักษาระดับทุนทางการเงินที่วัดค่าของทุนโดยใช้หน่วยเงินตามอำนาจซื้อเดิม กำไรหมายถึง การเพิ่มขึ้นของเงินทุนในระหว่างรอบระยะเวลาโดยวัดจากหน่วยเงินตามอำนาจซื้อเดิมตลอดรอบระยะเวลานั้น ดังนั้น การเพิ่มขึ้นของราคาสินทรัพย์ที่ถือครองอยู่ในรอบระยะเวลานั้นจึงถือเป็นกำไรตามแนวคิดนี้ (ซึ่งแต่เดิมถือเป็นรายการกำไรจากการถือครอง) กิจการอาจไม่รับรู้กำไรดังกล่าวจนกว่ากิจการจะจำหน่ายสินทรัพย์นั้น ตามแนวคิดเกี่ยวกับการรักษาระดับทุนทางการเงินที่ใช้หน่วยเงินตามอำนาจซื้อคงที่ กำไร หมายถึง การเพิ่มขึ้นของอำนาจซื้อของเงินที่ลงทุนในรอบระยะเวลาหนึ่ง ดังนั้น ราคาสินทรัพย์ที่เพิ่มขึ้นเฉพาะส่วนที่สูงกว่าการเพิ่มขึ้นของระดับราคาทั่วไปเท่านั้นที่ถือเป็นกำไร ส่วนที่เหลือถือเป็นรายการปรับปรุงเพื่อรักษาระดับทุนซึ่งต้องแสดงในส่วนของเจ้าของ

109. ตามแนวคิดของการรักษาระดับทุนทางการผลิตที่วัดค่าของทุนตามกำลังการผลิตจริง กำไรหมายถึง การเพิ่มขึ้นของทุนดังกล่าวในระหว่างรอบระยะเวลา การเปลี่ยนแปลงราคาที่ส่งผลกระทบต่อสินทรัพย์และหนี้สินของกิจการถือเป็นการเปลี่ยนแปลงในการวัดค่าของกำลังการผลิตที่ใช้ผลิตจริงของกิจการ ดังนั้น การเปลี่ยนแปลงราคาดังกล่าวจึงถือเป็นการปรับปรุงเพื่อรักษาระดับทุนซึ่งแสดงอยู่ในส่วนของเจ้าของโดยไม่ถือเป็นกำไร

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110. การเลือกเกณฑ์ในการวัดค่าและแนวคิดเกี่ยวกับการรักษาระดับทุนจะเป็นตัวกำหนดรูปแบบทางการบัญชีที่ใช้ในการจัดทำงบการเงิน รูปแบบทางการบัญชีที่ต่างกันให้ระดับของความเกี่ยวข้องกับการตัดสินใจและความเชื่อถือได้แตกต่างกัน เช่นเดียวกับเรื่องอื่น ๆ ฝ่ายบริหารต้องพิจารณาถึงความสมดุลระหว่างความเกี่ยวข้องกับการตัดสินใจและความเชื่อถือได้ แม่บทการบัญชีนี้สามารถประยุกต์ใช้ได้กับรูปแบบทางการบัญชีหลายรูปแบบ และสามารถถือเป็นแนวทางในการจัดทำและนำเสนองบการเงินตามรูปแบบทางการบัญชีที่เลือกใช้ แต่ทั้งนี้คณะกรรมการมาตรฐานการบัญชีไม่มีเจตจำนงที่จะกำหนดรูปแบบทางการบัญชีที่เฉพาะเจาะจง

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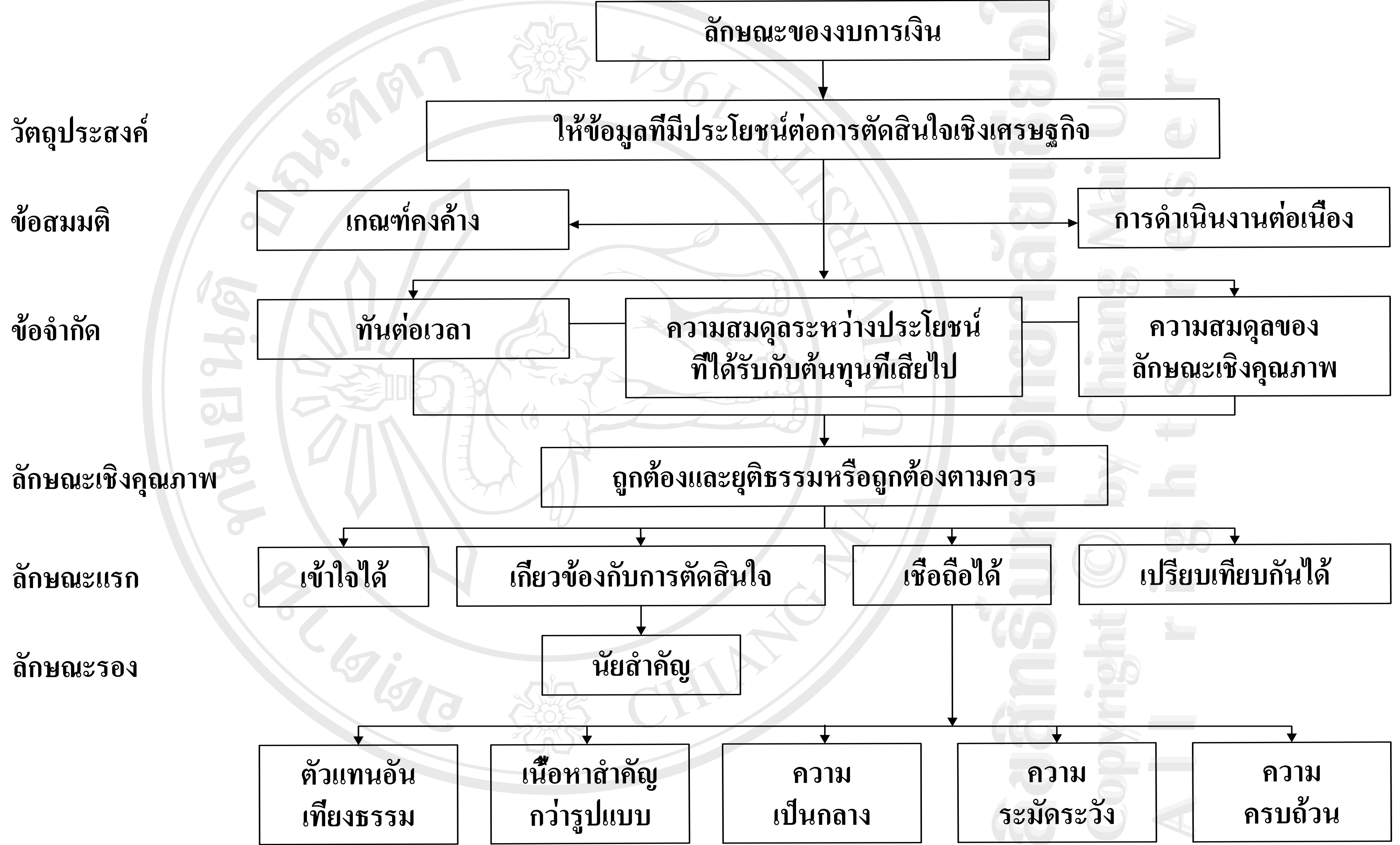
แม่บทการบัญชีสำหรับการจัดทำและนำเสนองบการเงิน



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ภาคผนวก ฉ

แม่บทการบัญชีของประเทศสหรัฐอเมริกา

Statements of Financial Accounting Concepts
หรือ Concepts Statement No.1, 2, 5, 6 และ 7

(ไม่รวมภาคผนวกและเชิงอรรถ)

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CON 1 HIGHLIGHTS

[*Best understood in context of full Statement*]

- Financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions.
- The objectives of financial reporting are not immutable—they are affected by the economic, legal, political, and social environment in which financial reporting takes place.
- The objectives are also affected by the characteristics and limitations of the kind of information that financial reporting can provide.
  - The information pertains to business enterprises rather than to industries or the economy as a whole.
  - The information often results from approximate, rather than exact, measures.
  - The information largely reflects the financial effects of transactions and events that have already happened.
  - The information is but one source of information needed by those who make decisions about business enterprises.
  - The information is provided and used at a cost.
- The objectives in this Statement are those of general purpose external financial reporting by business enterprises.
  - The objectives stem primarily from the needs of external users who lack the authority to prescribe the information they want and must rely on information management communicates to them.
  - The objectives are directed toward the common interests of many users in the ability of an enterprise to generate favorable cash flows but are phrased using investment and credit decisions as a reference to give them a focus. The objectives are intended to be broad rather than narrow.
  - The objectives pertain to financial reporting and are not restricted to financial statements.
- The objectives state that:

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- Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

- Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. Since investors' and creditors' cash flows are related to enterprise cash flows, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.

- Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change its resources and claims to those resources.

• "Investors" and "creditors" are used broadly and include not only those who have or contemplate having a claim to enterprise resources but also those who advise or represent them.

• Although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

• The primary focus of financial reporting is information about earnings and its components.

• Information about enterprise earnings based on accrual accounting generally provides a better indication of an enterprise's present and continuing ability to generate favorable cash flows than information limited to the financial effects of cash receipts and payments.

• Financial reporting is expected to provide information about an enterprise's financial performance during a period and about how management of an enterprise has discharged its stewardship responsibility to owners.

• Financial accounting is not designed to measure directly the value of a business enterprise, but the information it provides may be helpful to those who wish to estimate its value.

• Investors, creditors, and others may use reported earnings and information about the elements of financial statements in various ways to assess the prospects for cash flows. They may wish, for example, to evaluate management's performance, estimate "earning power," predict future earnings, assess risk, or to confirm, change, or reject earlier predictions or assessments. Although financial reporting should provide basic information to aid them, they do their own evaluating, estimating, predicting, assessing, confirming, changing, or rejecting.

• Management knows more about the enterprise and its affairs than investors, creditors, or other "outsiders" and accordingly can often increase the usefulness of financial information by identifying certain events and circumstances and explaining their financial effects on the enterprise.

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Statements of Financial Accounting Concepts

This is the first in a series of Statements of Financial Accounting Concepts. The purpose of the series is to set forth fundamentals on which financial accounting and reporting standards will be based. More specifically, Statements of Financial Accounting Concepts are intended to establish the objectives and concepts that the Financial Accounting Standards Board will use in developing standards of financial accounting and reporting.

The Board itself is likely to be the major user and thus the most direct beneficiary of the guidance provided by the new series. However, knowledge of the objectives and concepts the Board uses should enable all who are affected by or interested in financial accounting standards to better understand the content and limitations of information provided by financial accounting and reporting, thereby furthering their ability to use that information effectively and enhancing confidence in financial accounting and reporting. That knowledge, if used with care, may also provide guidance in resolving new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements.

Unlike a Statement of Financial Accounting Standards, a Statement of Financial Accounting Concepts does not establish generally accepted accounting principles and therefore is not intended to invoke the application of Rule 203 of the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants (or successor rule or arrangement of similar scope and intent). Like other pronouncements of the Board, a Statement of Financial Accounting Concepts may be amended, superseded, or withdrawn by appropriate action under the Board's *Rules of Procedure*.

The Board recognizes that in certain respects current generally accepted accounting principles may be inconsistent with those that may derive from the objectives and concepts set forth in this Statement and others in the series. In due course, the Board expects to reexamine its pronouncements, pronouncements of predecessor standard-setting bodies, and existing financial reporting practice in the light of newly enunciated objectives and concepts. In the meantime, a Statement of Financial Accounting Concepts does not (a) require a change in existing generally accepted accounting principles, (b) amend, modify, or interpret Statements of Financial Accounting Standards, Interpretations of the FASB, effective Opinions of the Accounting Principles Board, or effective Bulletins of the Committee on Accounting Procedure, or (c) justify either changing existing generally accepted accounting and reporting practices or interpreting the pronouncements listed in (b) based on personal interpretations of the objectives and concepts in the Statements of Financial Accounting Concepts.

To establish objectives and concepts will not, by itself, directly solve financial accounting and reporting problems. Rather, objectives and concepts are tools for solving problems. Moreover, although individual Statements of Financial Accounting Concepts may be issued serially, they will form a cohesive set of interrelated concepts and will often need to be used jointly.

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The new series of Statements of Financial Accounting Concepts is intended and expected to serve the public interest within the context of the role of financial accounting and reporting in the economy—to provide evenhanded financial and other information that, together with information from other sources, facilitates efficient functioning of capital and other markets and otherwise assists in promoting efficient allocation of scarce resources in the economy.

This Statement contains no conclusions about matters expected to be covered in other Statements resulting from the Board's conceptual framework project, such as objectives of financial reporting by organizations other than business enterprises; elements of financial statements and their recognition, measurement, and display; capital maintenance; unit of measure; criteria for distinguishing information to be included in financial statements from that which should be provided by other means of financial reporting; and criteria for evaluating and selecting accounting information (qualitative characteristics).

INTRODUCTION AND BACKGROUND

1. This Statement establishes the objectives of general purpose external financial reporting by business enterprises. Its concentration on business enterprises is not intended to imply that the Board has concluded that the uses and objectives of financial reporting by other kinds of entities are, or should be, the same as or different from those of business enterprises. Those and related matters, including whether and, if so, how business enterprises and other organizations should be distinguished for the purpose of establishing objectives of and basic concepts underlying financial reporting, are issues in another phase of the Board's conceptual framework project.

2. This Statement is the first of a planned series of publications in the Board's conceptual framework project. Later Statements are expected to cover the elements of financial statements and their recognition, measurement, and display as well as related matters such as capital maintenance, unit of measure, criteria for distinguishing information to be included in financial statements from that which should be provided by other means of financial reporting, and criteria for evaluating and selecting accounting information (qualitative characteristics). Accordingly, this Statement contains no conclusions about matters such as the identity, number, or form of financial statements or about the attributes to be measured or the unit of measure to be used. Thus, although designation in the objectives of certain information as relevant has implications for communicating the information, the Statement should not be interpreted as implying a particular set of financial statements. Nor should the Statement be interpreted as suggesting that the relative merits of various attributes, such as historical cost/historical proceeds or current cost/current proceeds, have been resolved. Similarly, references in it to measures in units of money should not be interpreted as precluding the possibility of measures in constant dollars (units of money having constant purchasing power).

3. This Statement also does not specify financial accounting standards prescribing accounting procedures or disclosure practices for particular items or events; rather it describes concepts and relations that will underlie future financial accounting standards and practices and in due course serve as a basis for evaluating existing standards and practices. Its effect on financial reporting will be reflected primarily in Statements of Financial Accounting Standards. Until the FASB reexamines its pronouncements, pronouncements of predecessor standard-setting bodies, and existing financial reporting practices, pronouncements such as *APB Statement No. 4,* "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises," or the *Accounting Terminology Bulletins* will continue to serve their intended purpose—to describe objectives and concepts underlying standards and practices existing before the issuance of this Statement.

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4. This Statement includes a brief exposition of the reasons for the Board's conclusions. It therefore includes no separate Appendix containing a basis for conclusions. Appendix A to this Statement contains background information for the Statement.

Financial Statements and Financial Reporting

5. The objectives in this Statement pertain to financial reporting and are not restricted to information communicated by financial statements. Although financial reporting and financial statements have essentially the same objectives, some useful information is better provided by financial statements and some is better provided, or can only be provided, by means of financial reporting other than financial statements. The following paragraphs briefly describe some major characteristics of financial reporting and financial statements and give some examples, but they draw no clear distinction between financial reporting and financial statements and leave extremely broad the scope of financial reporting. The Board will draw boundaries, as needed, in other parts of the conceptual framework project or in financial accounting standards.

6. Financial statements are a central feature of financial reporting. They are a principal means of communicating accounting information to those outside an enterprise. Although financial statements may also contain information from sources other than accounting records, accounting systems are generally organized on the basis of the elements of financial statements (assets, liabilities, revenues, expenses, etc.) and provide the bulk of the information for financial statements. The financial statements now most frequently provided are (a) balance sheet or statement of financial position, (b) income or earnings statement, (c) statement of retained earnings, (d) statement of other changes in owners' or stockholders' equity, and (e) statement of changes in financial position (statement of sources and applications of funds). To list those examples from existing practice implies no conclusions about the identity, number, or form of financial statements because those matters are yet to be considered in the conceptual framework project (paragraph 2).

7. Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by the accounting system—that is, information about an enterprise's resources, obligations, earnings, etc. Management may communicate information to those outside an enterprise by means of financial reporting other than formal financial statements either because the information is required to be disclosed by authoritative pronouncement, regulatory rule, or custom or because management considers it useful to those outside the enterprise and discloses it voluntarily. Information communicated by means of financial reporting other than financial statements may take various forms and relate to various matters. Corporate annual reports, prospectuses, and annual reports filed with the Securities and Exchange Commission are common examples of reports that include financial statements, other financial information, and nonfinancial information. News releases, management's forecasts or other descriptions of its plans or expectations, and descriptions of an enterprise's social or environmental impact are examples of reports giving financial information other than financial statements or giving only nonfinancial information.

8. Financial statements are often audited by independent accountants for the purpose of enhancing confidence in their reliability. Some financial reporting by management outside the financial statements is audited, or is reviewed but not audited, by independent accountants or other experts, and some is provided by management without audit or review by persons outside the enterprise.

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Environmental Context of Objectives

9. Financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions—for making reasoned choices among alternative uses of scarce resources in the conduct of business and economic activities. Thus, the objectives set forth stem largely from the needs of those for whom the information is intended, which in turn depend significantly on the nature of the economic activities and decisions with which the users are involved. Accordingly, the objectives in this Statement are affected by the economic, legal, political, and social environment in the United States. The objectives are also affected by characteristics and limitations of the information that financial reporting can provide (paragraphs 17-23).

10. The United States has a highly developed exchange economy. Most goods and services are exchanged for money or claims to money instead of being consumed by their producers. Most goods and services have money prices, and cash (ready money, including currency, coins, and money on deposit) is prized because of what it can buy. Members of the society carry out their consumption, saving, and investment decisions by allocating their present and expected cash resources.

11. Production and marketing of goods and services often involve long, continuous, or intricate processes that require large amounts of capital, which in turn require substantial savings in the economy. Savings are often invested through a complex set of intermediaries which offer savers diverse types of ownership and creditor claims, many of which can be freely traded or otherwise converted to cash.

12. Most productive activity in the United States is carried on through investor-owned business enterprises, including many large corporations that buy, sell, and obtain financing in national or multinational markets. Since investor-owners are commonly more interested in returns from dividends and market price appreciation of their securities than in active participation in directing corporate affairs, directors and professional managers commonly control enterprise resources and decide how those resources are allocated in enterprise operations. Management is accountable to owner-investors, both directly and through an elected board of directors, for planning and controlling enterprise operations in their interests, including gaining or maintaining competitive advantage or parity in the markets in which the enterprise buys, sells, and obtains financing and considering and balancing various other, often competing interests, such as those of employees, customers, lenders, suppliers, and government.

13. Business enterprises raise capital for production and marketing activities not only from financial institutions and small groups of individuals but also from the public through issuing equity and debt securities that are widely traded in highly developed securities markets. Numerous, perhaps most, transactions in those markets are transfers from one investor or creditor to another with no part of the exchange price going to the issuing enterprise. But those transactions set the market prices for particular securities and thereby affect an enterprise's ability to attract investment funds and its cost of raising capital. Those having funds to invest normally assess the expected costs, expected returns, and expected risks of alternative investment opportunities. They attempt to balance expected risks and returns and generally invest in high risk ventures only if they expect commensurately high returns and will accept low expected returns only if expected risk is commensurately low. A business enterprise is unlikely to be able to compete successfully in the markets for lendable or investment funds unless lenders and investors expect the enterprise to be able to sell its output at prices sufficiently in excess of its costs to enable them to expect a return from interest or dividends and market price appreciation commensurate with the risks they perceive. Thus, well-developed securities markets tend to allocate scarce resources to enterprises that use them efficiently and away from inefficient enterprises.

14. In the United States, productive resources are generally privately owned rather than government owned. Markets—which vary from those that are highly competitive, including many commodities and securities markets, to those that involve regulated monopolies, including markets for telephone service or electricity—are significant factors in resource allocation in the economy. However, government intervenes in the allocation process in many ways and for various purposes. For example, it intervenes directly by collecting taxes, borrowing, and spending for its purchases of goods and services for government operations and programs; by regulating business activities; or by paying subsidies. It intervenes less directly through broad tax, monetary, and fiscal policies. Government also has a broad interest in the impact of business enterprises on the community at large and may intervene to alter that impact. Many government interventions are expressly designed to work through market forces, but even government actions that are not so designed may significantly affect the balance of market forces.

15. Moreover, government is a major supplier of economic statistics and other economic information that are widely used by management, investors, and others interested in individual business enterprises and are commonly included in news reports and other statistics and analyses in ways that may broadly affect perceptions about business and economic matters. Although government statistics are primarily "macro" in nature (pertaining to the economy as a whole or to large segments of it) and do not generally disclose much about individual business enterprises, they are based to a considerable extent on information of the kind provided by financial reporting by individual business enterprises.

16. The effectiveness of individuals, enterprises, markets, and government in allocating scarce resources among competing uses is enhanced if those who make economic decisions have information that reflects the relative standing and performance of business enterprises to assist them in evaluating alternative courses of action and the expected returns, costs, and risks of each. The function of financial reporting is to provide information that is useful to those who make economic decisions about business enterprises and about investments in or loans to business enterprises. Independent auditors commonly examine or review financial statements and perhaps other information, and both those who provide and those who use that information often view an independent auditor's opinion as enhancing the reliability or credibility of the information.

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Characteristics and Limitations of Information Provided

17. The objectives of financial reporting are affected not only by the environment in which financial reporting takes place but also by the characteristics and limitations of the kind of information that financial reporting, and particularly financial statements, can provide. The information is to a significant extent financial information based on approximate measures of the financial effects on individual business enterprises of transactions and events that have already happened; it cannot be provided or used without incurring a cost.

18. The information provided by financial reporting is primarily financial in nature—it is generally quantified and expressed in units of money. Information that is to be formally incorporated in financial statements must be quantifiable in units of money. Other information can be disclosed in financial statements (including notes) or by other means, but financial statements involve adding, subtracting, multiplying, and dividing numbers depicting economic things and events and require a common denominator. The numbers are usually exchange prices or amounts derived from exchange prices. Quantified nonfinancial information (such as number of employees or units of product produced or sold) and nonquantified information (such as descriptions of operations or explanations of policies) that are reported normally relate to or underlie the financial information. Financial information is often limited by the need to measure in units of money or by constraints inherent in procedures, such as verification, that are commonly used to enhance the reliability or objectivity of the information.

19. The information provided by financial reporting pertains to individual business enterprises, which may comprise two or more affiliated entities, rather than to industries or an economy as a whole or to members of society as consumers. Financial reporting may provide information about industries and economies in which an enterprise operates but usually only to the extent the information is relevant to understanding the enterprise. It does not attempt to measure the degree to which the consumption of wealth satisfies consumers' wants. Since business enterprises are producers and distributors of scarce resources, financial reporting bears on the allocation of economic resources to producing and distributing activities and focuses on the creation of, use of, and rights to wealth and the sharing of risks associated with wealth.

20. The information provided by financial reporting often results from approximate, rather than exact, measures. The measures commonly involve numerous estimates, classifications, summarizations, judgments, and allocations. The outcome of economic activity in a dynamic economy is uncertain and results from combinations of many factors. Thus, despite the aura of precision that may seem to surround financial reporting in general and financial statements in particular, with few exceptions the measures are approximations, which may be based on rules and conventions, rather than exact amounts.

21. The information provided by financial reporting largely reflects the financial effects of transactions and events that have already happened. Management may communicate information about its plans or projections, but financial statements and most other financial reporting are historical. For example, the acquisition price of land, the current market price of a marketable equity security, and the current replacement price of an inventory are all historical data—no future prices are involved. Estimates resting on expectations of the future are often needed in financial reporting, but their major use, especially of those formally incorporated in financial statements, is to measure financial effects of past transactions or events or the present status of an asset or liability. For example, if depreciable assets are accounted for at cost, estimates of useful lives are needed to determine current depreciation and the current undepreciated cost of the asset. Even the discounted amount of future cash payments required by a long-term debt contract is, as the name implies, a "present value" of the liability. The information is largely historical, but those who use it may try to predict the future or may use the information to confirm or reject their previous predictions. To provide information about the past as an aid in assessing the future is not to imply that the future can be predicted merely by extrapolating past trends or relationships. Users of the information need to assess the possible or probable impact of factors that may cause change and form their own expectations about the future and its relation to the past.

22. Financial reporting is but one source of information needed by those who make economic decisions about business enterprises. Business enterprises and those who have economic interests in them are affected by numerous factors that interact with each other in complex ways. Those who use financial information for business and economic decisions need to combine information provided by financial reporting with pertinent information from other sources, for example, information about general economic conditions or expectations, political events and political climate, or industry outlook.

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23. The information provided by financial reporting involves a cost to provide and use, and generally the benefits of information provided should be expected to at least equal the cost involved. The cost includes not only the resources directly expended to provide the information but may also include adverse effects on an enterprise or its stockholders from disclosing it. For example, comments about a pending lawsuit may jeopardize a successful defense, or comments about future plans may jeopardize a competitive advantage. The collective time needed to understand and use information is also a cost. Sometimes a disparity between costs and benefits is obvious. However, the benefits from financial information are usually difficult or impossible to measure objectively, and the costs often are; different persons will honestly disagree about whether the benefits of the information justify its costs.

Potential Users and Their Interests

24. Many people base economic decisions on their relationships to and knowledge about business enterprises and thus are potentially interested in the information provided by financial reporting. Among the potential users are owners, lenders, suppliers, potential investors and creditors, employees, management, directors, customers, financial analysts and advisors, brokers, underwriters, stock exchanges, lawyers, economists, taxing authorities, regulatory authorities, legislators, financial press and reporting agencies, labor unions, trade associations, business researchers, teachers and students, and the public. Members and potential members of some groups—such as owners, creditors, and employees—have or contemplate having direct economic interests in particular business enterprises. Managers and directors, who are charged with managing the enterprise in the interest of owners (paragraph 12), also have a direct interest. Members of other groups—such as financial analysts and advisors, regulatory authorities, and labor unions—have derived or indirect interests because they advise or represent those who have or contemplate having direct interests.

25. Potential users of financial information most directly concerned with a particular business enterprise are generally interested in its ability to generate favorable cash flows because their decisions relate to amounts, timing, and uncertainties of expected cash flows. To investors, lenders, suppliers, and employees, a business enterprise is a source of cash in the form of dividends or interest and perhaps appreciated market prices, repayment of borrowing, payment for goods or services, or salaries or wages. They invest cash, goods, or services in an enterprise and expect to obtain sufficient cash in return to make the investment worthwhile. They are directly concerned with the ability of the enterprise to generate favorable cash flows and may also be concerned with how the market's perception of that ability affects the relative prices of its securities. To customers, a business enterprise is a source of goods or services, but only by obtaining sufficient cash to pay for the resources it uses and to meet its other obligations can the enterprise provide those goods or services. To managers, the cash flows of a business enterprise are a significant part of their management responsibilities, including their accountability to directors and owners. Many, if not most, of their decisions have cash flow consequences for the enterprise. Thus, investors, creditors, employees, customers, and managers significantly share a common interest in an enterprise's ability to generate favorable cash flows. Other potential users of financial information share the same interest, derived from investors, creditors, employees, customers, or managers whom they advise or represent or derived from an interest in how those groups (and especially stockholders) are faring.

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26. Some of the potential users listed in paragraph 24 may have specialized needs but also have the power to obtain information needed. For example, both the information needed to enforce tax laws and regulations and the information needed to set rates for public utilities are specialized needs. However, although both taxing authorities and rate-making bodies often use the information in financial statements for their purposes, both also have statutory authority to require the specific information they need to fulfill their functions and do not need to rely on information provided to other groups. Some investors and creditors or potential investors and creditors may also be able to require a business enterprise to provide specified information to meet a particular need—for example, a bank or insurance company negotiating with an enterprise for a large loan or private placement of securities can often obtain desired information by making the information a condition for completing the transaction.

27. Except for management, and to some extent directors, the potential users listed in paragraph 24 are commonly described as "external users," and accounting and reporting are sometimes divided conventionally into internal and external parts. That broad distinction more nearly suits the purposes of this Statement than does another common conventional distinction—that between managerial or management accounting (which is designed to assist management decision making, planning, and control at the various administrative levels of an enterprise) and financial accounting (which is concerned with accounting for an enterprise's assets, liabilities, revenues, expenses, earnings, etc.) because management uses information provided by both management accounting and financial accounting. Management needs, in addition to financial accounting information, a great deal of management accounting information to carry out its responsibilities in planning and controlling operations. Much of that information relates to particular decisions or to

particular cost or profit centers and is often provided in more detail than is considered necessary or appropriate for external financial reporting, even though the same accounting system normally accumulates, processes, and provides the information whether it is called managerial or financial or internal or external. Directors usually have access to at least some information available to management that is normally not provided outside an enterprise. Since management accounting is internal to an enterprise, it can usually be tailored to meet management's informational needs and is beyond the scope of this Statement.

General Purpose External Financial Reporting

28. The objectives in this Statement are those of general purpose external financial reporting by business enterprises. The objectives stem primarily from the informational needs of external users who lack the authority to prescribe the financial information they want from an enterprise and therefore must use the information that management communicates to them. Those potential users include most of the groups listed in paragraph 24.

29. Financial reporting has both an internal and an external aspect, and this Statement focuses on the external aspect. Management is as interested in information about assets, liabilities, earnings, and related elements as external users and, among its other requirements, generally needs the same kinds of information about those elements as external users (paragraph 25). Thus, management is a major user of the same information that is provided by external financial reporting. However, management's primary role in external financial reporting is that of communicating information for use by others. For that reason, it has a direct interest in the cost, adequacy, and understandability of external financial reporting.

30. General purpose external financial reporting is directed toward the common interest of various potential users in the ability of an enterprise to generate favorable cash flows (paragraph 25). Thus, the objectives in this Statement are focused on information for investment and credit decisions for reasons that are largely pragmatic, not to narrow their scope. The objectives need a focus to avoid being vague or highly abstract. Investors and creditors and their advisors are the most obvious prominent external groups who use the information provided by financial reporting and who generally lack the authority to prescribe the information they want. Their decisions and their uses of information have been studied and described to a much greater extent than those of other external groups, and their decisions significantly affect the allocation of resources in the economy. In addition, information provided to meet investors' and creditors' needs is likely to be generally useful to members of other groups who are interested in essentially the same financial aspects of business enterprises as investors and creditors.

31. For convenience, *financial reporting* is used in place of *general purpose external financial reporting by business enterprises* in the remainder of this Statement.

OBJECTIVES OF FINANCIAL REPORTING

32. The following objectives of financial reporting flow from the preceding paragraphs and proceed from the more general to the more specific. The objectives begin with a broad focus on information that is useful in investment and credit decisions; then narrow that focus to investors' and creditors' primary interest in the prospects of receiving cash from their investments in or loans to business enterprises and the relation of those prospects to the enterprise's prospects; and finally focus on information about an enterprise's economic resources, the claims to those resources, and changes in them, including measures of the enterprise's performance, that is useful in assessing the enterprise's cash flow prospects. The reasons for focusing the objectives of financial reporting primarily on investment, credit, and similar decisions are given in paragraph 30. That focus and wording do not mean that the objectives apply only to investors and creditors and exclude everyone else. To the contrary, information that satisfies the objectives should be useful to all who are interested in an enterprise's future capacity to pay or in how investors or creditors are faring.

33. The objectives are those of financial reporting rather than goals for investors, creditors, or others who use the information or goals for the economy or society as a whole. The role of financial reporting in the economy is to provide information that is useful in making business and economic decisions, not to determine what those decisions should be. For example, saving and investing in productive resources (capital formation) are generally considered to be prerequisite to increasing the standard of living in an economy. To the extent that financial reporting provides information that helps identify relatively efficient and inefficient users of resources, aids in assessing relative returns and risks of investment opportunities, or otherwise assists in promoting efficient functioning of capital and other markets, it helps to create a favorable environment for capital formation decisions. However, investors, creditors, and others make those decisions, and it is not a function of financial reporting to try to determine or influence the outcomes of those decisions. The role of financial

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reporting requires it to provide evenhanded, neutral, or unbiased information. Thus, for example, information that indicates that a relatively inefficient user of resources is efficient or that investing in a particular enterprise involves less risk than it does and information that is directed toward a particular goal, such as encouraging the reallocation of resources in favor of a particular segment of the economy, are likely to fail to serve the broader objectives that financial reporting is intended to serve.

Information Useful in Investment and Credit Decisions

34. Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence.

35. This Statement uses the terms investors and creditors broadly. The terms include both those who deal directly with an enterprise and those who deal through intermediaries, both those who buy securities from other investors or creditors and those who buy newly issued securities from the enterprise or an underwriter, both those who commit funds for long periods and those who trade frequently, both those who desire safety of investment and those who are willing to accept risk to obtain high rates of return, both individuals and specialized institutions. The major groups of investors are equity securityholders and debt securityholders. The major groups of creditors are suppliers of goods and services who extend credit, customers and employees with claims, lending institutions, individual lenders, and debt securityholders. The terms also may comprehend security analysts and advisors, brokers, lawyers, regulatory agencies, and others who advise or represent the interests of investors and creditors or who otherwise are interested in how investors and creditors are faring.

36. Individual investors, creditors, or other potential users of financial information understand to varying degrees the business and economic environment, business activities, securities markets, and related matters. Their understanding of financial information and the way and extent to which they use and rely on it also may vary greatly. Financial information is a tool and, like most tools, cannot be of much direct help to those who are unable or unwilling to use it or who misuse it. Its use can be learned, however, and financial reporting should provide information that can be used by all—nonprofessionals as well as professionals—who are willing to learn to use it properly. Efforts may be needed to increase the understandability of financial information. Cost-benefit considerations may indicate that information understood or used by only a few should not be provided. Conversely, financial reporting should not exclude relevant information merely because it is difficult for some to understand or because some investors or creditors choose not to use it.

Information Useful in Assessing Cash Flow Prospects

37. Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. The prospects for those cash receipts are affected by an enterprise's ability to generate enough cash to meet its obligations when due and its other cash operating needs, to reinvest in operations, and to pay cash dividends and may also be affected by perceptions of investors and creditors generally about that ability, which affect market prices of the enterprise's securities. Thus, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.

38. People engage in investing, lending, and similar activities primarily to increase their cash resources. The ultimate test of success (or failure) of those activities is the extent to which they return more (or less) cash than they cost. A successful investor or creditor receives not only a return *of* investment but also a return *on* that investment (cash, goods, or services) commensurate with the risk involved. Moreover, investment, credit, and similar decisions normally involve choices between present cash and future cash—for example, the choice between the price of a security that can be bought or sold or the amount of a loan and rights to expected future cash receipts from dividends or interest and proceeds from resale or repayment. Investors, creditors, and others need information to help them form rational expectations about those prospective cash receipts and assess the risk that the amounts or timing of the

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receipts may differ from expectations, including information that helps them assess prospective cash flows to the enterprise in which they have invested or to which they have loaned funds.

39. Business enterprises, like investors and creditors, invest cash in noncash resources to earn more cash. The test of success (or failure) of the operations of an enterprise is the extent to which the cash returned exceeds (or is less than) the cash spent (invested) over the long run (footnote 7). A successful enterprise receives not only a return *of* its investment but also a satisfactory return *on* that investment. The market's assessment of an enterprise's expected success in generating favorable cash flows affects the relative market prices of its securities, although the level of market prices of securities is affected by numerous factors—such as general economic conditions, interest rates, market psychology, and the like—that are not related to particular enterprises. Thus, since an enterprise's ability to generate favorable cash flows affects both its ability to pay dividends and interest and the market prices of its securities, expected cash flows to investors and creditors are related to expected cash flows to the enterprise in which they have invested or to which they have loaned funds.

Information about Enterprise Resources, Claims to Those Resources, and Changes in Them

40. Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources.

Economic Resources, Obligations, and Owners' Equity

41. Financial reporting should provide information about an enterprise's economic resources, obligations, and owners' equity. That information helps investors, creditors, and others identify the enterprise's financial strengths and weaknesses and assess its liquidity and solvency. Information about resources, obligations, and owners' equity also provides a basis for investors, creditors, and others to evaluate information about the enterprise's performance during a period (paragraphs 42-48). Moreover, it provides direct indications of the cash flow potentials of some resources and of the cash needed to satisfy many, if not most, obligations. That is, some of an enterprise's resources are direct sources of cash to the enterprise, many obligations are direct causes of cash payments by the enterprise, and reasonably reliable measures of future net cash inflows or future net cash outflows are often possible for those resources and obligations. Many cash flows cannot be identified with individual resources (or some obligations), however, because they are the joint result of combining various resources in the enterprise's operations. Indirect measures of cash flow potential are widely considered necessary or desirable, both for particular resources and for enterprises as a whole. That information may help those who desire to estimate the value of a business enterprise, but financial accounting is not designed to measure directly the value of an enterprise.

Enterprise Performance and Earnings

42. Financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

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43. The primary focus of financial reporting is information about an enterprise's performance provided by measures of earnings and its components. Investors, creditors, and others who are concerned with assessing the prospects for enterprise net cash inflows are especially interested in that information. Their interest in an enterprise's future cash flows and its ability to generate favorable cash flows leads primarily to an interest in information about its earnings rather than information directly about its cash flows. Financial statements that show only cash receipts and payments during a short period, such as a year, cannot adequately indicate whether or not an enterprise's performance is successful.

44. Information about enterprise earnings and its components measured by accrual accounting generally provides a better indication of enterprise performance than information about current cash receipts and payments. Accrual accounting attempts to record the financial effects on an enterprise of transactions and other events and circumstances that have cash consequences for an enterprise in the periods in which those transactions, events, and

circumstances occur rather than only in the periods in which cash is received or paid by the enterprise. Accrual accounting is concerned with the process by which cash expended on resources and activities is returned as more (or perhaps less) cash to the enterprise, not just with the beginning and end of that process. It recognizes that the buying, producing, selling, and other operations of an enterprise during a period, as well as other events that affect enterprise performance, often do not coincide with the cash receipts and payments of the period.

45. Periodic earnings measurement involves relating to periods the benefits from and the costs of operations and other transactions, events, and circumstances that affect an enterprise. Although business enterprises invest cash to obtain a return *on* investment as well as a return *of* investment, the investment of cash and its return often do not occur in the same period. Modern business activities are largely conducted on credit and often involve long and complex financial arrangements or production or marketing processes. An enterprise's receivables and payables, inventory, investments, property, plant, equipment, and other noncash resources and obligations are the links between its operations and other transactions, events, and circumstances that affect it and its cash receipts and outlays. For example, labor is often used by an enterprise before it is paid for, requiring that salaries and wages payable be accrued to recognize the obligation and measure the effects on earnings in the period the labor is used rather than when the payroll checks are issued. Conversely, resources such as raw materials and equipment may be paid for by an enterprise in a period that does not coincide with their use, requiring that the resources on hand be recognized and that the effect on earnings be deferred until the periods the resources are used. Similarly, receivables and the related effects on earnings must often be accrued before the related cash is received, or obligations must be recognized when cash is received and the effects on earnings must be identified with the periods in which goods or services are provided. The goal of accrual and deferral of benefits and sacrifices is to relate the accomplishments and the effects so that reported earnings measures an enterprise's performance during a period instead of merely listing its cash receipts and outlays.

46. Earnings and its components relate to an individual enterprise during a particular period. Over the life of an enterprise (or other very long period), total reported earnings equals the net cash receipts excluding those from capital changes (ignoring changes in value of money noted in footnote 7), but that relationship between earnings and cash flows rarely, if ever, holds for periods as short as a year. The major difference between periodic earnings measured by accrual accounting and statements of cash receipts and outlays is timing of recognition of the components of earnings.

47. Investors, creditors, and others often use reported earnings and information about the components of earnings in various ways and for various purposes in assessing their prospects for cash flows from investments in or loans to an enterprise. For example, they may use earnings information to help them (a) evaluate management's performance, (b) estimate "earning power" or other amounts they perceive as "representative" of long-term earning ability of an enterprise, (c)predict future earnings, or (d) assess the risk of investing in or lending to an enterprise. They may use the information to confirm, reassure themselves about, or reject or change their own or others' earlier predictions or assessments. Measures of earnings and information about earnings disclosed by financial reporting should, to the extent possible, be useful for those and similar uses and purposes.

48. However, accrual accounting provides measures of earnings rather than evaluations of management's performance, estimates of "earning power," predictions of earnings, assessments of risk, or confirmations or rejections of predictions or assessments. Investors, creditors, and other users of the information do their own evaluating, estimating, predicting, assessing, confirming, or rejecting. For example, procedures such as averaging or normalizing reported earnings for several periods and ignoring or averaging out the financial effects of "nonrepresentative" transactions and events are commonly used in estimating "earning power." However, both the concept of "earning power" and the techniques for estimating it are part of financial analysis and are beyond the scope of financial reporting.

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Liquidity, Solvency, and Funds Flows

49. Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency. For example, although reports of an enterprise's cash receipts and cash outlays during a period are generally less useful than earnings information for measuring enterprise performance during a period and for assessing an enterprise's ability to generate favorable cash flows (paragraphs 42-46), information about cash flows or other funds flows may be useful in understanding the operations of an enterprise, evaluating its financing activities, assessing its liquidity or solvency, or interpreting earnings information provided. Information about

earnings and economic resources, obligations, and owners' equity may also be useful in assessing an enterprise's liquidity or solvency.

Management Stewardship and Performance

50. Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. Management of an enterprise is periodically accountable to the owners not only for the custody and safekeeping of enterprise resources but also for their efficient and profitable use and for protecting them to the extent possible from unfavorable economic impacts of factors in the economy such as inflation or deflation and technological and social changes. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general. Society may also impose broad or specific responsibilities on enterprises and their managements.

51. Earnings information is commonly the focus for assessing management's stewardship or accountability. Management, owners, and others emphasize enterprise performance or profitability in describing how management has discharged its stewardship accountability. A central question for owners, managers, potential investors, the public, and government is how an enterprise and its owners are faring. Since earnings and its components for a single period are often an insufficient basis for assessing management's stewardship, owners and others may estimate "earning power" or other average they consider "representative" of long-term performance. As noted in paragraph 48, however, accrual accounting measures earnings for a period rather than "earning power" or other financial analysis concepts.

52. Financial reporting should provide information that is useful to managers and directors in making decisions in the interests of owners. Although this Statement is concerned primarily with providing information to external users, managers and directors are responsible to owners (and other investors) for enterprise performance as reflected by financial reporting and they are judged at least to some extent on the enterprise performance reported. Thus, how owners have fared during a period is of equal concern to managers and owners, and information provided should be useful to both in meeting their common goal.

53. Financial reporting, and especially financial statements, usually cannot and does not separate management performance from enterprise performance. Business enterprises are highly complex institutions, and their production and marketing processes are often long and intricate. Enterprise successes and failures are the result of the interaction of numerous factors. Management ability and performance are contributing factors, but so are events and circumstances that are often beyond the control of management, such as general economic conditions, supply and demand characteristics of enterprise inputs and outputs, price changes, and fortuitous events and circumstances. What happens to a business enterprise is usually so much a joint result of a complex interaction of many factors that neither accounting nor other statistical analysis can discern with reasonable accuracy the degree to which management, or any other factor, affected the joint result. Actions of past managements affect current periods' earnings, and actions of current management affect future periods' earnings. Financial reporting provides information about an enterprise during a period when it was under the direction of a particular management but does not directly provide information about that management's performance. The information is therefore limited for purposes of assessing management performance apart from enterprise performance.

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Management Explanations and Interpretations

54. Financial reporting should include explanations and interpretations to help users understand financial information provided. For example, the usefulness of financial information as an aid to investors, creditors, and others in forming expectations about a business enterprise may be enhanced by management's explanations of the information. Management knows more about the enterprise and its affairs than investors, creditors, or other "outsiders" and can often increase the usefulness of financial information by identifying certain transactions, other events, and circumstances that affect the enterprise and explaining their financial impact on it. In addition, dividing continuous operations into accounting periods is a convention and may have arbitrary effects. Management can aid investors, creditors, and others in using financial information by identifying arbitrary results caused by separating periods, explaining why the effect is arbitrary, and describing its effect on reported information. Moreover, financial reporting often provides information that depends on, or is affected by, management's estimates and judgment. Investors, creditors, and others are aided in evaluating estimates and judgmental information by explanations of underlying assumptions or methods used, including disclosure of significant uncertainties about principal underlying

assumptions or estimates. Financial reporting may, of course, provide information in addition to that specified by financial accounting standards, regulatory rules, or custom.

THE CONCEPTUAL FRAMEWORK: A PERSPECTIVE

55. Paragraphs 40-54 focus the objectives of financial reporting by business enterprises on information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events, and circumstances that change resources and claims to them. The paragraphs emphasize information about an enterprise's performance provided by measures of earnings and its components and also broadly describe other kinds of information that financial reporting should provide. The objectives lead to, but leave unanswered, questions such as the identity, number, and form of financial statements; elements of financial statements and their recognition, measurement, and display; information that should be provided by other means of financial reporting; and meanings and balancing or trading-off of relevance, reliability, and other criteria for evaluating and selecting accounting information (qualitative characteristics). Those matters are, as noted in paragraph 2, topics of other Statements that are expected to follow this Statement on objectives.

56. Financial statements are the basic means of communicating the information described in paragraphs 40-54 to those who use it. The elements of financial statements provide ". . .information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources" (paragraph 40), including ". . .information about an enterprise's performance provided by measures of earnings and its components" (paragraph 43). Thus, the next phase of the conceptual framework project pertains to the elements of financial statements.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Robert A. Morgan
Robert T. Sprouse
Oscar S. Gellein
David Mosso
Ralph E. Walters
John W. March

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Statement of Financial Accounting

Concepts No. 2

Qualitative Characteristics of Accounting Information

CON2 Status

Issued:	May 1980
Affects:	No other pronouncements
Affected by:	Paragraph 4 and footnote 2 superseded by CON 6

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Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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SUMMARY OF PRINCIPAL CONCLUSIONS

The purpose of this Statement is to examine the characteristics that make accounting information useful. Those who prepare, audit, and use financial reports, as well as the Financial Accounting Standards Board, must often select or evaluate accounting alternatives. The characteristics or qualities of information discussed in this Statement are the ingredients that make information useful and are the qualities to be sought when accounting choices are made.

All financial reporting is concerned in varying degrees with decision making (though decision makers also use information obtained from other sources). The need for information on which to base investment, credit, and similar decisions underlies the objectives of financial reporting. The usefulness of information must be evaluated in relation to the purposes to be served, and the objectives of financial reporting are focused on the use of accounting information in decision making.

The central role assigned to decision making leads straight to the overriding criterion by which all accounting choices must be judged. The better choice is the one that, subject to considerations of cost, produces from among the available alternatives information that is most useful for decision making.

Even objectives that are oriented more towards stewardship are concerned with decisions. Stewardship deals with the efficiency, effectiveness, and integrity of the steward. To say that stewardship reporting is an aspect of accounting's decision making role is simply to say that its purpose is to guide actions that may need to be taken in relation to the steward or in relation to the activity that is being monitored.

A Hierarchy of Accounting Qualities

The characteristics of information that make it a desirable commodity can be viewed as a hierarchy of qualities, with usefulness for decision making of most importance. Without usefulness, there would be no benefits from information to set against its costs.

User-Specific Factors

In the last analysis, each decision maker judges what accounting information is useful, and that judgment is influenced by factors such as the decisions to be made, the methods of decision making to be used, the information already possessed or obtainable from other sources, and the decision maker's capacity (alone or with professional help) to process the information. The optimal information for one user will not be optimal for another. Consequently, the Board, which must try to cater to many different users while considering the burdens placed on those who have to provide information, constantly treads a fine line between requiring disclosure of too much or too little information.

The hierarchy separates user-specific qualities, for example, understandability, from qualities inherent in information. Information cannot be useful to decision makers who cannot understand it, even though it may otherwise be relevant to a decision and be reliable. However, understandability of information is related to the characteristics of the decision maker as well as the characteristics of the information itself and, therefore, understandability cannot be evaluated in overall terms but must be judged in relation to a specific class of decision makers.

Primary Decision-Specific Qualities

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CON 2

Relevance and *reliability* are the two primary qualities that make accounting information useful for decision making. Subject to constraints imposed by cost and materiality, increased relevance and increased reliability are the characteristics that make information a more desirable commodity—that is, one useful in making decisions. If either of those qualities is completely missing, the information will not be useful. Though, ideally, the choice of an accounting alternative should produce information that is both more reliable and more relevant, it may be necessary to sacrifice some of one quality for a gain in another.

To be relevant, information must be timely and it must have predictive value *or* feedback value or both. To be reliable, information must have representational faithfulness and it must be verifiable and neutral. Comparability, which includes consistency, is a secondary quality that interacts with relevance and reliability to contribute to the usefulness of information. Two constraints are included in the hierarchy, both primarily quantitative in character. Information can be useful and yet be too costly to justify providing it. To be useful *and* worth providing, the benefits of information should exceed its cost. All of the qualities of information shown are subject to a materiality threshold, and that is also shown as a constraint.

Relevance

- Relevant accounting information is capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations. Information can make a difference to decisions by improving decision makers' capacities to predict or by providing feedback on earlier expectations. Usually, information does both at once, because knowledge about the outcomes of actions already taken will generally improve decision makers' abilities to predict the results of similar future actions. Without a knowledge of the past, the basis for a prediction will usually be lacking. Without an interest in the future, knowledge of the past is sterile.
- Timeliness, that is, having information available to decision makers before it loses its capacity to influence decisions, is an ancillary aspect of relevance. If information is not available when it is needed or becomes available so long after the reported events that it has no value for future action, it lacks relevance and is of little or no use. Timeliness alone cannot make information relevant, but a lack of timeliness can rob information of relevance it might otherwise have had.

Reliability

- The reliability of a measure rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user that it has that representational quality. To be useful, information must be reliable as well as relevant. Degrees of reliability must be recognized. It is hardly ever a question of black or white, but rather of more reliability or less. Reliability rests upon the extent to which the accounting description or measurement is verifiable and representationally faithful. Neutrality of information also interacts with those two components of reliability to affect the usefulness of the information.
- Verifiability is a quality that may be demonstrated by securing a high degree of consensus among independent measurers using the same measurement methods. Representational faithfulness, on the other hand, refers to the correspondence or agreement between the accounting numbers and the resources or events those numbers purport to represent. A high degree of correspondence, however, does not guarantee that an accounting measurement will be relevant to the user's needs if the resources or events represented by the measurement are inappropriate to the purpose at hand.
- Neutrality means that, in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest. A neutral choice between accounting alternatives is free from bias towards a predetermined result. The objectives of financial reporting serve many different information users who have diverse interests, and no one predetermined result is likely to suit all interests.

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Comparability and Consistency

- Information about a particular enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time. Comparability between enterprises and consistency in the application of methods over time increases the informational value of comparisons of relative economic opportunities or performance. The significance of information, especially quantitative information, depends to a great extent on the user's ability to relate it to some benchmark.

Materiality

- Materiality is a pervasive concept that relates to the qualitative characteristics, especially relevance and reliability. Materiality and relevance are both defined in terms of what influences or makes a difference to a decision maker, but the two terms can be distinguished. A decision not to disclose certain information may be made, say, because investors have no need for that kind of information (it is not relevant) or because the amounts involved are too small to make a difference (they are not material). Magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment. The Board's present position is that no general standards of materiality can be formulated to take into account all the considerations that enter into an experienced human judgment. Quantitative materiality criteria may be given by the Board in specific standards in the future, as in the past, as appropriate.

Costs and Benefits

- Each user of accounting information will uniquely perceive the relative value to be attached to each quality of that information. Ultimately, a standard-setting body has to do its best to meet the needs of society as a whole when it promulgates a standard that sacrifices one of those qualities for another; and it must also be aware constantly of the calculus of costs and benefits. In order to justify requiring a particular disclosure, the perceived benefits to be derived from that disclosure must exceed the perceived costs associated with it. However, to say anything precise about their incidence is difficult. There are costs of using information as well as of providing it; and the benefits from providing financial information accrue to preparers as well as users of that information.
- Though it is unlikely that significantly improved means of measuring benefits will become available in the foreseeable future, it seems possible that better ways of quantifying the incremental costs of regulations of all kinds may gradually be developed, and the Board will watch any such developments carefully to see whether they can be applied to financial accounting standards. The Board cannot cease to be concerned about the cost-effectiveness of its standards. To do so would be a dereliction of its duty and a disservice to its constituents.

Statements of Financial Accounting Concepts

This Statement of Financial Accounting Concepts is one of a series of publications in the Board's conceptual framework for financial accounting and reporting. Statements in the series are intended to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for, their recognition and measurement, and the means of summarizing and communicating them to interested parties. Concepts of that type are fundamental in the sense that other concepts flow from them and repeated reference to them will be necessary in establishing, interpreting, and applying accounting and reporting standards.

The conceptual framework is a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and reporting. It is expected to serve the public interest by providing structure and direction to financial accounting and reporting to facilitate the provision of evenhanded financial and related information that is useful in assisting capital and other markets to function efficiently in allocating scarce resources in the economy.

Establishment of objectives and identification of fundamental concepts will not directly solve financial accounting and reporting problems. Rather, objectives give direction, and concepts are tools for solving problems.

The Board itself is likely to be the most direct beneficiary of the guidance provided by the Statements in this series. They will guide the Board in developing accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider merits of alternatives.

However, knowledge of the objectives and concepts the Board will use in developing standards should also enable those who are affected by or interested in financial accounting standards to understand better the purposes, content, and characteristics of information provided by financial accounting and reporting. That knowledge is expected to enhance the usefulness of, and confidence in, financial accounting and reporting. Careful use of the concepts may also provide guidance in resolving new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements.

Statements of Financial Accounting Concepts do not establish standards prescribing accounting procedures or disclosure practices for particular items or events, which are issued by the Board as Statements of Financial Accounting Standards. Rather, Statements in this series describe concepts and

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relations that will underlie future financial accounting standards and practices and in due course serve as a basis for evaluating existing standards and practices.

The Board recognizes that in certain respects current generally accepted accounting principles may be inconsistent with those that may derive from the objectives and concepts set forth in Statements in this series. However, a Statement of Financial Accounting Concepts does not (a) require a change in existing generally accepted accounting principles, (b) amend, modify, or interpret Statements of Financial Accounting Standards, Interpretations of the FASB, Opinions of the Accounting Principles Board, or Bulletins of the Committee on Accounting Procedure that are in effect, or (c) justify either changing existing generally accepted accounting and reporting practices or interpreting the pronouncements listed in item (b) based on personal interpretations of the objectives and concepts in the Statements of Financial Accounting Concepts.

Since a Statement of Financial Accounting Concepts does not establish generally accepted accounting principles or standards for the disclosure of financial information outside of financial statements in published financial reports, it is not intended to invoke application of Rule 203 or 204 of the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants (or successor rules or arrangements of similar scope and intent).

Like other pronouncements of the Board, a Statement of Financial Accounting Concepts may be amended, superseded, or withdrawn by appropriate action under the Board's *Rules of Procedure*.

FASB PUBLICATIONS ON CONCEPTUAL FRAMEWORK

Statements of Financial Accounting Concepts

No. 1, *Objectives of Financial Reporting by Business Enterprises* (November 1978)

Exposure Drafts Being (or Yet to Be) Considered by the Board

Elements of Financial Statements of Business Enterprises (December 28, 1979)

Objectives of Financial Reporting by Nonbusiness Organizations (March 14, 1980)

Discussion Memorandums and Invitations to Comment Having Issues Being Considered by the Board

Reporting Earnings (July 31, 1979)

Financial Statements and Other Means of Financial Reporting (May 12, 1980)

Other Projects in Process

Accounting Recognition Criteria

Funds Flows and Liquidity

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GLOSSARY OF TERMS

Bias

Bias in measurement is the tendency of a measure to fall more often on one side than the other of what is represents instead of being equally likely to fall on either side. Bias in accounting measures means a tendency to be consistently too high or too low.

Comparability

The quality of information that enables users to identify similarities in and differences between two sets of economic phenomena.

Completeness

The inclusion in reported information of everything material that is necessary for faithful representation of the relevant phenomena.

Conservatism

A prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered.

Consistency

Conformity from period to period with unchanging policies and procedures.

Feedback Value

The quality of information that enables users to confirm or correct prior expectations.

Materiality

The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

Neutrality

Absence in reported information of bias intended to attain a predetermined result or to induce a particular mode of behavior.

Predictive Value

The quality of information that helps users to increase the likelihood of correctly forecasting the outcome of past or present events.

Relevance

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The capacity of information to make a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations.

Reliability

The quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent.

Representational Faithfulness

Correspondence or agreement between a measure or description and the phenomenon that it purports to represent (sometimes called validity).

Timeliness

Having information available to a decision maker before it loses its capacity to influence decisions.

Understandability

The quality of information that enables users to perceive its significance.

Verifiability

The ability through consensus among measurers to ensure that information represents what it purports to represent or that the chosen method of measurement has been used without error or bias.

INTRODUCTION

1. The purpose of this Statement is to examine the characteristics of accounting information that make that information useful. This Statement is one of a planned series of publications in the Board's conceptual framework project. It should be seen as a bridge between FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, and other Statements to be issued covering the elements of financial statements and their recognition, measurement, and display. The Statement on objectives was concerned with the *purposes* of financial reporting. Later Statements will be concerned with questions about *how* those purposes are to be attained; and the standards that the Board has issued and will issue from time to time are also intended to attain those purposes. The Board believes that, in between the "why" of objectives and the "how" of other Statements and standards, it is helpful to share with its constituents its thinking about the characteristics that the information called for in its standards should have. It is those characteristics that distinguish more useful accounting information from less useful information.

2. Although those characteristics are expected to be stable, they are not immutable. They are affected by the economic, legal, political, and social environment in which financial reporting takes place and they may also change as new insights and new research results are obtained. Indeed, they ought to change if new knowledge shows present judgments to be outdated. If and when that happens, revised concepts Statements will need to be issued.

3. Although conventionally referred to as qualitative characteristics, some of the more important of the characteristics of accounting information that make it useful, or whose absence limit its usefulness, turn out on closer inspection to be quantitative in nature (for example, costliness) or to be partly qualitative and partly quantitative (for example, reliability and timeliness). While it will sometimes be important to keep those distinctions in mind, it will usually be convenient, and not misleading, to refer to all of the characteristics of information discussed in this Statement as "qualities" of information.

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4. Although the discussion of the qualities of information and the related examples in this Statement refer primarily to business enterprises, the Board has tentatively concluded that similar qualities also apply to financial information reported by nonbusiness organizations. The Board intends to solicit views regarding its tentative conclusion.

5. To maximize the usefulness of accounting information, subject to considerations of the cost of providing it, entails choices between alternative accounting methods. Those choices will be made more wisely if the ingredients that contribute to "usefulness" are better understood. The characteristics or qualities of information discussed in this Statement are, indeed, the ingredients that make information useful. They are, therefore, the qualities to be sought when accounting choices are made. They are as near as one can come to a set of criteria for making those choices.

The Nature of Accounting Choices

6. Accounting choices are made at two levels at least. At one level they are made by the Board or other agencies that have the power to require business enterprises to report in some particular way or, if exercised negatively, to prohibit a method that those agencies consider undesirable. An example of such a

choice, made many years ago but still accepted as authoritative, is the pronouncement by the Committee on Accounting Procedure of the American Institute of Certified Public Accountants that ". . .the exclusion of all overheads from inventory costs does not constitute an accepted accounting procedure" for general purpose external financial reporting.

7. Accounting choices are also made at the level of the individual enterprise. As more accounting standards are issued, the scope for individual choice inevitably becomes circumscribed. But there are now and will always be many accounting decisions to be made by reporting enterprises involving a choice between alternatives for which no standard has been promulgated or a choice between ways of implementing a standard.

8. Those who are unfamiliar with the nature of accounting are often surprised at the large number of choices that accountants are required to make. Yet choices arise at every turn. Decisions must first be made about the nature and definition of assets and liabilities, revenues and expenses, and the criteria by which they are to be recognized. Then a choice must be made of the attribute of assets to be measured—historical cost, current cost, current exit value, net realizable value, or present value of expected cash flows. If costs have to be allocated, either among time periods (for example, to compute depreciation) or among service beneficiaries (for example, industry segments), methods of allocation must be chosen. Further, choices must be made concerning the level of aggregation or disaggregation of the information to be disclosed in financial reports. Should a particular subsidiary company be consolidated or should its financial statements be presented separately? How many reportable segments should a company recognize? Choices involving aggregation arise at every point. Still other choices concern the selection of the terminal date of an enterprise's financial year, the form of descriptive captions to be used in its financial statements, the selection of matters to be commented on in notes or in supplementary information, and the wording to be used.

9. That list of choices, which is by no means comprehensive, illustrates some of the more important choices that arise in financial reporting. References throughout this Statement to alternative accounting policies, methods, or choices refer to the kinds of alternatives illustrated above.

10. If alternative accounting methods could be given points for each ingredient of usefulness in a particular situation, it would be an easy matter to add up each method's points and select the one (subject to its cost) that scored highest—so long, of course, as there were general agreement on the scoring system and how points were to be awarded. There are some who seem to harbor the hope that somewhere waiting to be discovered there is a comprehensive scoring system that can provide the universal criterion for making accounting choices. Unfortunately, neither the Board nor anyone else has such a system at the present time, and there is little probability that one will be forthcoming in the foreseeable future. Consequently, those who must choose among alternatives are forced to fall back on human judgment to evaluate the relative merits of competing methods. If it were not so, there would be no need for a standard-setting authority; for by means of the comprehensive scoring system, agreement on the "best" methods would easily be secured.

11. That does not mean that nothing can be done to aid human judgment. By identifying and defining the qualities that make accounting information useful, this Statement develops a number of generalizations or guidelines for making accounting choices that are intended to be useful to the Board, to its staff, to preparers of financial statements, and to all others interested in financial reporting. For the Board and its staff, the qualities of useful accounting information should provide guidance in developing accounting standards that will be consistent with the objectives of financial reporting. This Statement also provides a terminology that should promote consistency in standard setting. For preparers of financial information, the qualities of useful accounting information should provide guidance in choosing between alternative ways of representing economic events, especially in dealing with situations not yet clearly covered by standards. This Statement also should be useful to those who use information provided by financial reporting. For them, its main value will be in increasing their understanding of both the usefulness and the limitations of the financial information that is provided by business enterprises and other organizations, either directly by financial reporting or indirectly through the commentaries of financial analysts and others. That increased understanding should be conducive to better-informed decisions.

12. The need for improved communication, especially between the Board and its constituents, provides much of the rationale for the whole conceptual framework project and particularly for this Statement. Indeed, improved communication may be the principal benefit to be gained from it. It is important that the concepts used by the Board in reaching its conclusions be understood by those who must apply its standards and those who use the results, for without understanding, standards become mere arbitrary edicts. Communication will also be facilitated if there is widespread use of a common terminology and a common set of definitions. The terminology used in this Statement is already widely, though not universally, used and its general adoption could help to eliminate many misunderstandings. The definitions of the principal terms used have been brought together in the glossary.

13. It should perhaps be emphasized here that this Statement is not a standard. Its purpose is not to make rules but to provide part of the conceptual base on which rule making can stand. Unless that distinction is understood, this Statement may be invested with more authority than a discussion of concepts has a right to carry.

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14. Whether at the level of the Board or the individual preparer, the primary criterion of choice between two alternative accounting methods involves asking which method produces the better—that is, the more useful—information. If that question can be answered with reasonable assurance, it is then necessary to ask whether the value of the better information sufficiently exceeds that of the inferior information to justify its extra cost, if any. If a satisfactory answer can again be given, the choice between the alternative methods is clear.

15. The qualities that distinguish "better" (more useful) information from "inferior" (less useful) information are primarily the qualities of **relevance** and reliability, with some other characteristics that those qualities imply. Subject to considerations of cost, the objective of accounting policy decisions is to produce accounting information that is relevant to the purposes to be served and is reliable. The meaning of those terms, the recognition that there are gradations of relevance and reliability, and the problems that arise if trade-offs between them are necessary all are matters discussed in later paragraphs of this Statement.

16. Accounting choices made by the Board and those made by individual statement preparers have this in common: they both aim to produce information that satisfies those criteria. Yet, though the objectives of the Board and of individual preparers are alike in that respect, the Board does not expect all its policy decisions to accord exactly with the preferences of every one of its constituents. Indeed, they clearly cannot do so, for the preferences of its constituents do not accord with each other. Left to themselves, business enterprises, even in the same industry, would probably choose to adopt different reporting methods for similar circumstances. But in return for the sacrifice of some of that freedom, there is a gain from the greater **comparability** and consistency that adherence to externally imposed standards brings with it. There also is a gain in credibility. The public is naturally skeptical about the reliability of financial reporting if two enterprises account differently for the same economic phenomena.

17. Throughout this Statement, readers should keep in mind the objectives of the Board in issuing accounting standards of widespread applicability and those of individual preparers who are concerned with the informational needs of a particular enterprise. Though the criteria by which information should be judged are the same whether the judgment is made by the Board or by a preparer, they cannot be expected always to produce agreement on a preferred choice of accounting method. The best accounting policies will provide information that best achieves the objectives of financial reporting. But whatever information is provided, it cannot be expected to be equally useful to all preparers and users, for the simple reason that individual needs and objectives vary. The Board strives to serve the needs of all, knowing that in doing so some individual preferences are sacrificed. Like motorists who observe traffic laws in the interest of their own and general traffic safety, so long as others do the same, in general, those who have to subordinate their individual preferences to observe common accounting standards will, in the long run, gain more than they lose.

18. The analogy between accounting standards and traffic laws merits closer examination. Traffic laws impose certain minima or maxima in regulating behavior but still permit considerable flexibility in driving habits. A speed limit leaves slow drivers to choose their speed below the maximum and does not prohibit passing by other drivers. Even a requirement to drive on the right allows a driver to choose and to change lanes on all but very narrow roads. The point is that in most respects the traffic laws allow for considerable variations within a framework of rules. In setting accounting standards, the Board also strives to leave as much room as possible for individual choices and preferences while securing the degree of conformity necessary to attain its objectives.

19. This Statement must be seen as part of the larger conceptual framework, an important part of the foundations of which were laid with the publication of Concepts Statement 1. This Statement, with the proposed Statement on the elements of financial statements of business enterprises, is part of the second stage of the structure. With successive stages, the level of abstraction will give way to increasing specificity. The qualitative characteristics discussed in this document are formulated in rather general terms. As they are brought to bear on particular situations in subsequent pronouncements, however, those generalizations will give way to specific applications.

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20. While this Statement concentrates on guidelines for making accounting choices, either by the Board or by those who provide financial information, its function is not to make those choices. Insofar as those choices lie within the Board's responsibility, some of them (for example, those relating to the attributes of assets and liabilities that should be measured and presented in financial statements) will be made in other parts of the conceptual framework project. Other choices will be made in the standards to be issued by the Board from time to time. The qualitative characteristics put forward in this Statement are intended to facilitate those choices and to aid in making them consistent with one another.

The Objectives of Financial Reporting

21. The objectives of financial reporting underlie judgments about the qualities of financial information, for only when those objectives have been established can a start be made on defining the characteristics of the information needed to attain them. In Concepts Statement 1, the Board set out the objectives of financial reporting for business enterprises that will guide it. The information covered by that Statement was not limited to the contents of financial statements. "Financial

reporting," the Statement said, "includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by the accounting system—that is, information about an enterprise's resources, obligations, earnings, etc. [paragraph 7]."

22. The objectives of financial reporting are summarized in the following excerpts from the Statement:

> Financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions. The information should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence. [paragraph 34]
>
> Financial reporting should provide information to help present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans. The prospects for those cash receipts are affected by an enterprise's ability to generate enough cash to meet its obligations when due and its other cash operating needs, to reinvest in operations, and to pay cash dividends and may also be affected by perceptions of investors and creditors generally about that ability, which affect market prices of the enterprise's securities. Thus, financial reporting should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise. [paragraph 37]
>
> Financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources. [paragraph 40]
>
> Financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance. [paragraph 42]
>
> The primary focus of financial reporting is information about an enterprise's performance provided by measures of earnings and its components. [paragraph 43]
>
> Financial reporting should provide information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency. [paragraph 49]
>
> Financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. [paragraph 50]
>
> Financial reporting should provide information that is useful to managers and directors in making decisions in the interests of owners. [paragraph 52]

23. The Statement on objectives makes clear (paragraph 31) that *financial reporting* means *general purpose external financial reporting by business enterprises*. General purpose financial reporting attempts to meet "the informational needs of external users who lack the authority to prescribe the financial information they want from an enterprise and therefore must use the information that management communicates to them" (paragraph 28). General purpose statements are not all purpose statements, and never can be.

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24. An analogy with cartography has been used to convey some of the characteristics of financial reporting, and it may be useful here. A map represents the geographical features of the mapped area by using symbols bearing no resemblance to the actual countryside, yet they communicate a great deal of information about it. The captions and numbers in financial statements present a "picture" of a business enterprise and many of its external and internal relationships more rigorously—more informatively, in fact—than a simple description of it. There are, admittedly, important differences between geography and economic activity and, therefore, between maps and financial statements. But the similarities may, nevertheless, be illuminating.

25. A "general purpose" map that tried to be "all purpose" would be unintelligible, once information about political boundaries, communications, physical features, geological structure, climate, economic activity, ethnic groupings, and all the other things that mapmakers can map were put on it. Even on a so-called general purpose map, therefore, the cartographer has to select the data to be presented. The cartographer, in fact, has to decide to serve some purposes and neglect others. The fact is that all maps are really special purpose maps, but some are more specialized than others. And so are financial statements. Some of the criticisms of financial statements derive from a failure to understand that even a general purpose statement can be relevant to and can, therefore, serve only a limited number of its users' needs.

26. The objectives focus financial reporting on a particular kind of economic decision—committing (or continuing to commit) cash or other resources to a business enterprise with expectation of future compensation or return, usually in cash but sometimes in other goods or services. Suppliers, lenders, employees, owners,

and, to a lesser extent, customers commonly make decisions of that kind, and managers continually make them about an enterprise's resources. Concepts Statement 1 uses investment and credit decisions as prototypes of the kind of decisions on which financial reporting focuses. Nevertheless, as just noted, the Board, in developing the qualities in this Statement, must be concerned with groups of users of financial information who have generally similar needs. Those qualities do not necessarily fit all users' needs equally well.

THE CENTRAL ROLE OF DECISION MAKING

27. All financial reporting is concerned in varying degrees with decision making (though decision makers also use information obtained from other sources). The need for information on which to base investment, credit, and similar decisions underlies the objectives of financial reporting cited earlier.

28. Even objectives that are oriented more towards stewardship are concerned with decisions. The broader stewardship use of accounting, which is concerned with the efficiency, effectiveness, and integrity of the steward, helps stockholders or other financially interested parties (for example, bondholders) to evaluate the management of an enterprise. But that would be a pointless activity if there were no possibility of taking action based on the results. Management is accountable to stockholders through an elected board of directors, but stockholders are often passive and do not insist on major management changes as long as an enterprise is reasonably successful. Their appraisals of management's stewardship help them to assess prospects for their investments, and stockholders who are dissatisfied with management's stewardship of those investments commonly sell their stock in the enterprise. Bondholders are concerned with management's compliance with bond indentures and may take legal action if covenants are broken. Thus, decision making and stewardship are interrelated accounting objectives. Indeed, the stewardship role of accounting may be viewed as subordinate to and a part of the decision making role, which is virtually all encompassing.

29. That view of the stewardship use of accounting in no way diminishes its importance, nor does it elevate the **predictive value** of accounting information above its confirmatory value. In its stewardship use, accounting compiles records of past transactions and events and uses those records to measure performance. The measurement confirms expectations or shows how far actual achievements diverged from them. The confirmation or divergence becomes the basis for a decision—which will often be a decision to leave things alone. To say that stewardship reporting is an aspect of accounting's decision making role is simply to say that its purpose is to guide actions that *may* need to be taken in relation to the steward or in relation to the activity that is being monitored.

30. The central role assigned here to decision making leads straight to the overriding criterion by which all accounting choices must be judged. The better choice is the one that, subject to considerations of cost, produces from among the available alternatives information that is most useful for decision making.

31. So broad a generalization looks self-evident. Indeed, it says no more than the Board said in Concepts Statement 1 (paragraph 9): "Financial reporting is not an end in itself but is intended to provide information that is useful in making business and economic decisions. . . ." The challenge is to define in more detail what makes accounting information useful for decision making. If there is a serious difference of opinion, it is not over the general nature of characteristics such as relevance and reliability, which clearly occupy important places in the hierarchy of qualities that make information useful. There may indeed be some disagreement about their relative importance. But more serious disagreement arises over the choice between two accounting methods (for example, methods of allocating costs or recognizing revenues) if the choice involves a judgment about which method will produce more relevant or more reliable results or a judgment about whether the superior relevance of the results of one method outweighs the superior reliability of the results of the other.

A HIERARCHY OF ACCOUNTING QUALITIES

32. The characteristics of information that make it a desirable commodity guide the selection of preferred accounting policies from among available alternatives. They can be viewed as a hierarchy of qualities, with usefulness for decision making of most importance. Without usefulness, there would be no benefits from information to set against its costs. The hierarchy is represented in Figure 1.

CON 2

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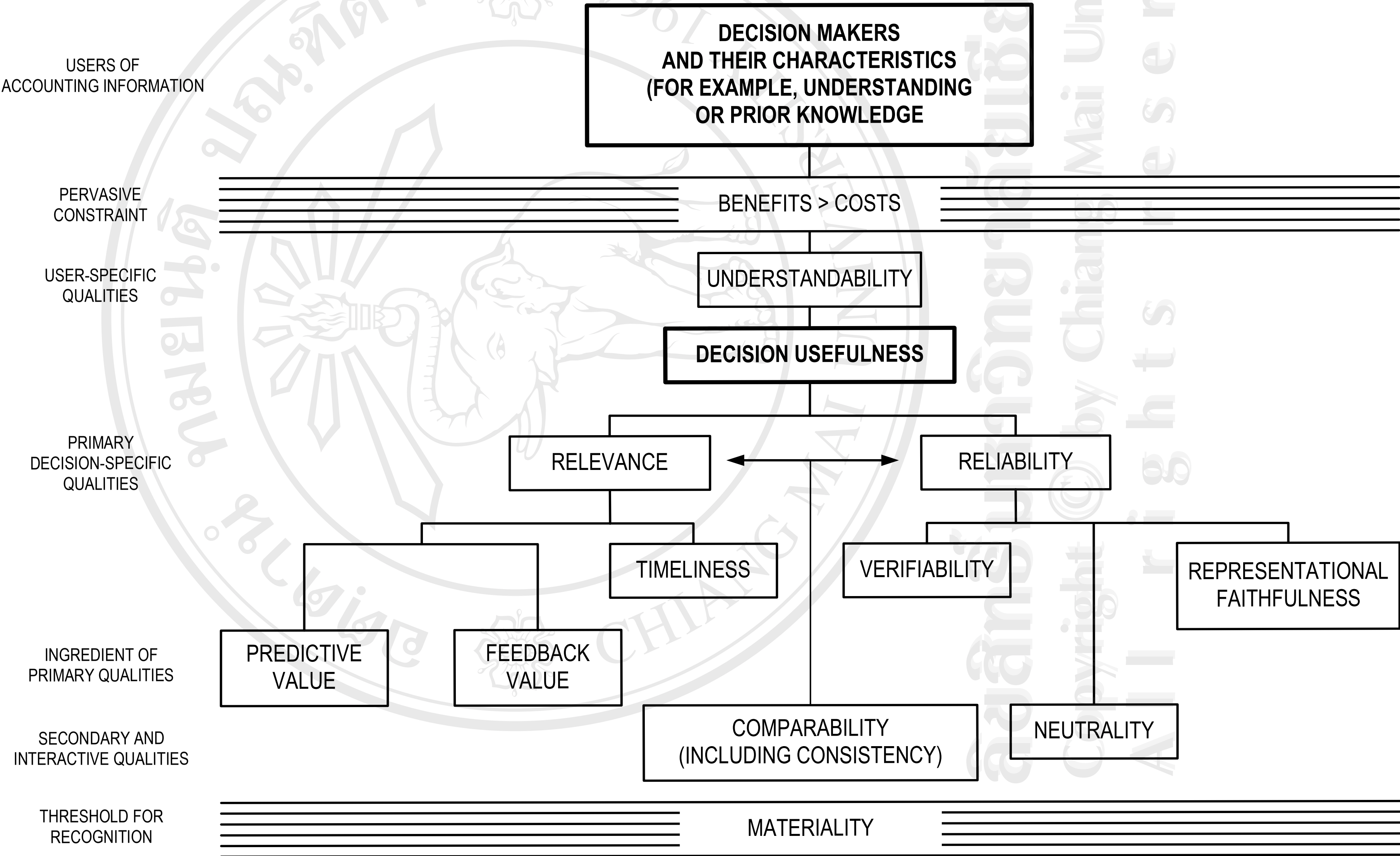
FIGURE 1

A HIERARCHY OF ACCOUNTING QUALITIES



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Features and Limitations of the Chart

33. Before discussing the informational characteristics shown on the chart, some words of explanation are offered about what the chart attempts to convey. It is a limited device—limited, for example, by being in two dimensions only—for showing certain relationships among the qualities that make accounting information useful. The primary qualities are that accounting information shall be relevant and reliable. If either of those qualities is completely missing, the information will not be useful. Relevance and reliability can be further analyzed into a number of components. To be relevant, information must be timely and it must have predictive value *or* **feedback value** or both. To be reliable, information must have **representational faithfulness** and it must be verifiable and neutral (the meaning of these terms, like all the other terms used in the chart, will be discussed later). Comparability, including consistency, is a secondary quality that interacts with relevance and reliability to contribute to the usefulness of information. Finally, two constraints are shown on the chart, both primarily quantitative rather than qualitative in character. Information can be useful and yet be too costly to justify providing it. To be useful and worth providing, the benefits of information should exceed its cost. All of the qualities shown are subject to a **materiality** threshold, and that is also shown as a constraint. The requirement that information be reliable can still be met even though it may contain immaterial errors, for errors that are not material will not perceptibly diminish its usefulness. Similar considerations apply to the other characteristics of information shown on the chart.

34. An important limitation of the hierarchy is that while it does distinguish between primary and other qualities, it does not assign priorities among qualities. That limitation is a salutary one, however, for the relative weight to be given to different qualities must vary according to circumstances. The hierarchy should be seen as no more than an explanatory device, the purpose of which is to clarify certain relationships rather than to assign relative weights. To be useful, financial information must have each of the qualities shown to a minimum degree. Beyond that, the rate at which one quality can be sacrificed in return for a gain in another quality without making the information less useful overall will be different in different situations.

35. Several characteristics that some would wish to see included in the hierarchy are not shown there. Rather than confuse a discussion of its positive features by explaining at this point why certain items have been excluded, discussion of that matter has been placed in Appendix B with other responses to comment letters that have been received by the Board.

Decision Makers and Their Characteristics

36. In the last analysis, each decision maker judges what accounting information is useful, and that judgment is influenced by factors such as the decisions to be made, the methods of decision making to be used, the information already possessed or obtainable from other sources, and the decision maker's capacity (alone or with professional help) to process the information. The optimal information for one user will not be optimal for another. Consequently, the Board, which must try to cater to many different users while considering the burdens placed on those who have to provide information, constantly treads a fine line between requiring disclosure of too much information and requiring too little.

37. The better informed decision makers are, the less likely it is that any new information can add materially to what they already know. That may make the new information less useful, but it does not make it less relevant to the situation. If an item of information reaches a user and then, a little later, the user receives the same item from another source, it is not less relevant the second time, though it will have less value. For that reason, relevance has been defined in this Statement (paragraphs 46 and 47) in terms of the capacity of information to make a difference (to someone who does not already have it) rather than in terms of the difference it actually does make. The difference it actually does make may be more a function of how much is already known (a condition specific to a particular user) than of the content of the new messages themselves (decision-specific qualities of information).

38. Thus, management in general and owners of small or closely held enterprises may find at least some information provided by external financial reporting to be less useful to them than it is to stockholders of large or publicly held enterprises. The latter must rely on financial reporting for information that the former has access to as a result of their intimate relationship to their enterprise.

39. Similarly, information cannot be useful to a person who cannot understand it. However, information may be relevant to a situation even though it cannot be understood by the person who confronts the situation. Its relevance will depend on its capacity to reduce uncertainty about the situation, even though it may call for more understanding to interpret it than its prospective user can command. For example, a hungry vegetarian traveling in a foreign country may experience difficulty in obtaining acceptable food when ordering from a menu printed in an unfamiliar language. The listing of items on the menu is relevant to the decision to be made but the traveler

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cannot use that information unless it is translated into another (understandable) language. Thus, the information may not be useful to a particular user even though it is relevant to the situation that the user faces. Information that cannot be understood, like information that is not available, may be relevant, but its relevance will be wasted because its capacity to make a difference cannot be utilized.

Understandability and Other User-Specific Qualities

40. The Board said in Concepts Statement 1 (paragraph 34) that information provided by financial reporting should be comprehensible to those who have a reasonable understanding of business and economic activities and are willing to study the information with reasonable diligence. The Board elaborated as follows:

> Financial information is a tool and, like most tools, cannot be of much direct help to those who are unable or unwilling to use it or who misuse it. Its use can be learned, however, and financial reporting should provide information that can be used by all—nonprofessionals as well as professionals—who are willing to learn to use it properly. Efforts may be needed to increase the understandability of financial information. Cost-benefit considerations may indicate that information understood or used by only a few should not be provided. Conversely, financial reporting should not exclude relevant information merely because it is difficult for some to understand or because some investors or creditors choose not to use it. [paragraph 36]

The benefits of information may be increased by making it more understandable and, hence, useful to a wider circle of users. **Understandability** of information is governed by a combination of user characteristics and characteristics inherent in the information, which is why understandability and other user-specific characteristics occupy a position in the hierarchy of qualities as a link between the characteristics of users (decision makers) and decision-specific qualities of information. Other parts of the conceptual framework project that will deal with displays of financial information will have a contribution to make to this matter.

41. Understandability and similar qualities of information, for example, newness, are closely related to the characteristics of *particular* decision makers as well as *classes* of decision makers. However, the Board is concerned with qualities of information that relate to broad classes of decision makers rather than to particular decision makers. Understandability can be classified as relating to particular decision makers (does the decision maker speak that language?) or relating to classes of decision makers (is the disclosure intelligible to the audience for which it is intended?). Newness of information can be classified similarly to understandability. The Board can influence the newness of information to broad classes of decision makers, for example, by requiring the disclosure of relevant information that was not previously available. However, the newness to a particular decision maker of generally available information depends largely on the timing of the receipt of that information by the decision maker, and that timing is subject to the effects of many variables extraneous to accounting and financial reporting. The Board establishes concepts and standards for general purpose external financial reporting by considering the needs of broad classes of decision makers and cannot base its decisions on the specific circumstances of individual decision makers.

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Relative Importance and Trade-Offs

42. Although financial information must be both relevant and reliable to be useful, information may possess both characteristics to varying degrees. It may be possible to trade relevance for reliability or vice versa, though not to the point of dispensing with one of them altogether. Information may also have other characteristics shown on the chart to varying degrees, and other trade-offs between characteristics may be necessary or beneficial.

43. The question has been raised whether the relative importance to be attached to relevance and reliability should be different in financial statements and in other means of financial reporting. The issuance in September 1979 of FASB Statement No. 33, *Financial Reporting and Changing Prices*, calling for reporting by certain enterprises of supplementary information on both constant dollar and current cost bases outside of the primary financial statements, has brought into prominence the question of whether information reported outside financial statements should be allowed to be less reliable than what is reported in them.

44. Although there seems to be considerable support for the view that reliability should be the dominant quality in the information conveyed in financial statements, even at the expense of relevance, while the opposite is true of information conveyed outside the financial statements, that view has in it the seeds of danger. Like most potentially harmful generalizations, it does contain a germ of truth: almost everyone agrees that criteria for formally recognizing

elements in financial statements call for a minimum level or threshold of reliability of measurement that should be higher than is usually considered necessary for disclosing information outside financial statements. But the remainder of the proposition does not follow. If it were carried to its logical conclusion and resulted in a downgrading of relevance of information in financial statements, the end would be that most really useful information provided by financial reporting would be conveyed outside the financial statements, while the audited financial statements would increasingly convey highly reliable but largely irrelevant, and thus useless, information. Those matters are germane to another part of the conceptual framework, the project on financial statements and other means of financial reporting.

45. This Statement discusses trade-offs between characteristics at several points. Those discussions apply generally to kinds of decisions and to groups of users of accounting information but do not necessarily apply to individual users. In a particular situation, the importance attached to relevance in relation to the importance of other decision specific qualities of accounting information (for example, reliability) will be different for different information users, and their willingness to trade one quality for another will also differ. The same thing is true of other considerations such as timeliness. That fact has an important bearing on the question of preferability, for it probably puts unanimity about preferences among accounting alternatives out of reach. Even though considerable agreement exists about the qualitative characteristics that "good" accounting information should have, no consensus can be expected about their relative importance in a specific situation because different users have or perceive themselves to have different needs and, therefore, have different preferences.

RELEVANCE

46. In discussions of accounting criteria, relevance has usually been defined in the dictionary sense, as pertaining to or having a bearing on the matter in question. That broad definition is satisfactory as far as it goes—information must, of course, be logically related to a decision in order to be relevant to it. Mistaken attempts to base decisions on logically unrelated information cannot convert irrelevant information into relevant information any more than ignoring relevant information makes it irrelevant. However, the meaning of relevance for financial reporting needs to be made more explicit. Specifically, it is information's capacity to "make a difference" that identifies it as relevant to a decision.

47. To be relevant to investors, creditors, and others for investment, credit, and similar decisions, accounting information must be capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct expectations. "Event" is a happening of consequence to an enterprise (Exposure Draft on elements, paragraph 67), and in this context can mean, for example, the receipt of a sales order or a price change in something the enterprise buys or sells. "Outcome" is the effect or result of an event or series of events and in this context can mean, for example, that last year's profit was $X or the expectation that this year's profit will be $Y. The event in question may be a past event the outcome of which is not already known, or it may be a future event the outcome of which can only be predicted.

48. Information need not itself be a prediction of future events or outcomes to be useful in forming, confirming, or changing expectations about future events or outcomes. Information about the present status of economic resources or obligations or about an enterprise's past performance is commonly a basis for expectations (Concepts Statement 1, paragraph 42).

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49. Information may confirm expectations or it may change them. If it confirms them, it increases the probability that the results will be as previously expected. If it changes them, it changes the perceived probabilities of the previous possible outcomes. Either way, it makes a difference to one who does not already have that information. Decisions already made need not be changed, nor need a course of action already embarked on be altered by the information. A decision to hold rather than to sell an investment is a decision, and information that supports holding can be as relevant as information that leads to a sale. Information is relevant if the degree of uncertainty about the result of a decision that has already been made is confirmed or altered by the new information; it need not alter the decision.

50. One of the more fundamental questions raised by the search for relevance in accounting concerns the choice of attribute to be measured for financial reporting purposes. Will financial statements be more relevant if they are based on historical costs, current costs, or some other attribute? The question must be left for consideration in other parts of the conceptual framework project; but because of lack of experience with information providing measures of several of those attributes and differences of opinion about their relevance and reliability, it is not surprising that agreement on the question is so difficult to obtain.

Feedback Value and Predictive Value as Components of Relevance

51. Information can make a difference to decisions by improving decision makers' capacities to predict or by confirming or correcting their earlier expectations. Usually, information does both at once, because knowledge about the outcome of actions already taken will generally improve decision makers' abilities to predict the results of similar future actions. Without a knowledge of the past, the basis for a prediction will usually be lacking. Without an interest in the future, knowledge of the past is sterile.

52. The same point can be made by saying that information is relevant to a situation if it can reduce uncertainty about the situation. Information that was not known previously about a past activity clearly reduces uncertainty about its outcome, and information about past activities is usually an indispensable point of departure for attempts to foresee the consequences of related future activities. Disclosure requirements almost always have the dual purpose of helping to predict and confirming or correcting earlier predictions. The reporting of business results by segments is a good example of accounting reports whose relevance is believed to lie both in the information they convey about the past performance of segments and in their contribution to an investor's ability to predict the trend of earnings of a diversified company. Another example is to be found in interim earnings reports, which provide both feedback on past performance and a basis for prediction for anyone wishing to forecast annual earnings before the year-end.

53. To say that accounting information has *predictive value* is not to say that it is itself a *prediction*. It may be useful here to draw an analogy between the financial information that analysts and others use in predicting earnings or financial position and the information that meteorologists use in forecasting weather. Meteorologists gather and chart information about actual conditions—temperatures, barometric pressures, wind velocities at various altitudes, and so on—and draw their conclusions from the relationships and patterns that they detect. Success in forecasting the weather has increased as new methods of gathering information have been developed. New kinds of information have become available, and with greater speed than was previously possible. To the simple sources of information available to our ancestors have been added satellite photographs, radar, and radiosondes to give information about the upper atmosphere. New information makes possible more sophisticated predictive models. When a meteorologist selects from among the alternative sources of information and methods of gathering information—about existing conditions, since future conditions cannot be known—those sources and methods that have the greatest predictive value can be expected to be favored. So it is with information about the existing financial state of a company and observed changes in that state from which predictions of success, failure, growth, or stagnation may be inferred. Users can be expected to favor those sources of information and analytical methods that have the greatest predictive value in achieving their specific objectives. Predictive value here means value as an *input* into a predictive process, not value directly as a prediction.

54. An important similarity and an important difference between predicting the weather and predicting financial performance may be noted. The similarity is that the meteorologist's information and the information derived from financial reporting both have to be fed into a predictive model before they can throw light on the future. Financial predictions, like weather forecasts, are the joint product of a model and the data that go into it. A choice between alternative accounting methods on the basis of their predictive value can be made only if the characteristics of the model to be used are generally known. For example, the econometric models now used for economic forecasting are designed to use as data financial aggregates (among other things) as those aggregates are compiled at present. They might work less well if price-level adjusted data were used. However, it might be possible to revise the model for use with that kind of data so that even better predictions could be made. The point is that the predictive value of information cannot be assessed in the abstract. It has to be transformed into a prediction, and the nature of the transformation as well as the data used determine the outcome.

55. The important difference between meteorological and financial predictions is that only exceptionally can meteorological predictions have an effect on the weather, but business or economic decision makers' predictions often affect their subjects. For example, the use of financial models to predict business failures looks quite successful judged in the light of hindsight by looking at the financial history of failed firms during their last declining years. But a prediction of failure can be self-fulfilling by restricting a company's access to credit. The prediction could also bring about a recovery by initiating action by managers or bankers to avert failure. Because information affects human behavior and because different people react differently to it, financial information cannot be evaluated by means of a simple tally of the correct predictions that are based on it. Nevertheless, predictive value is an important consideration in distinguishing relevant from irrelevant accounting information.

Timeliness

56. Timeliness is an ancillary aspect of relevance. If information is not available when it is needed or becomes available only so long after the reported events that it has no value for future action, it lacks relevance and is of little or no use. Timeliness in the present context means having information available

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to decision makers before it loses its capacity to influence decisions. Timeliness alone cannot make information relevant, but a lack of timeliness can rob information of relevance it might otherwise have had.

57. Clearly, there are degrees of timeliness. In some situations, the capacity of information to influence decisions may evaporate quickly, as, for example, in a fast-moving situation such as a take-over bid or a strike, so that timeliness may have to be measured in days or perhaps hours. In other contexts, such as routine reports by an enterprise of its annual results, it may take a longer delay to diminish materially the relevance and, therefore, the usefulness of the information. But a gain in relevance that comes with increased timeliness may entail sacrifices of other desirable characteristics of information, and as a result there may be an overall gain or loss in usefulness. It may sometimes be desirable, for example, to sacrifice precision for timeliness, for an approximation produced quickly is often more useful than precise information that takes longer to get out. Of course, if, in the interest of timeliness, the reliability of the information is sacrificed to a material degree, the result may be to rob the information of much of its usefulness. What constitutes a material loss of reliability is discussed in later paragraphs. Yet, while every loss of reliability diminishes the usefulness of information, it will often be possible to approximate an accounting number to make it available more quickly without making it materially unreliable. As a result, its overall usefulness may be enhanced.

RELIABILITY

58. That information should be reliable as well as relevant is a notion that is central to accounting. It is, therefore, important to be clear about the nature of the claim that is being made for an accounting number that is described as reliable.

59. The reliability of a measure rests on the faithfulness with which it represents what it purports to represent, coupled with an assurance for the user, which comes through verification, that it has that representational quality. Of course, degrees of reliability must be recognized. It is hardly ever a question of black or white, but rather of more reliability or less.

60. Two different meanings of reliability can be distinguished and illustrated by considering what might be meant by describing a drug as reliable. It could mean that the drug can be relied on to cure or alleviate the condition for which it was prescribed, or it could mean that a dose of the drug can be relied on to conform to the formula shown on the label. The first meaning implies that the drug is effective at doing what it is expected to do. The second meaning implies nothing about effectiveness but does imply a correspondence between what is represented on the label and what is contained in the bottle.

61. Effectiveness is indeed a quality that is necessary in information, but in an accounting context it goes by another name—relevance. It is not always easy to maintain a clear distinction between relevance and reliability, as in the drug illustration, yet it is important to try to keep the two concepts apart. Given at least a minimum acceptable level of reliability, the choice of a drug will depend on its effectiveness in treating the condition for which it is prescribed.

62. Use of the term reliability in this Statement implies nothing about effectiveness. Accounting information is reliable to the extent that users can depend on it to represent the economic conditions or events that it purports to represent. As indicated in paragraph 59, reliability of accounting information stems from two characteristics that it is desirable to keep separate, representational faithfulness and verifiability. Neutrality of information also interacts with those two characteristics to affect its usefulness.

Representational Faithfulness

63. Representational faithfulness is correspondence or agreement between a measure or description and the phenomenon it purports to represent. In accounting, the phenomena to be represented are economic resources and obligations and the transactions and events that change those resources and obligations.

64. Clearly, much depends on the meaning of the words "purports to represent" in the preceding paragraphs. Sometimes, but rarely, information is unreliable because of simple misrepresentation. Receivables, for example, may misrepresent large sums as collectible that, in fact, are uncollectible. Unreliability of that kind may not be easy to detect, but once detected its nature is not open to argument. More subtle is the information conveyed by an item such as "goodwill." Does a balance sheet that shows goodwill as an asset purport to represent the company as having no goodwill except what is

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shown? An uninformed reader may well think so, while one who is familiar with present generally accepted accounting principles will know that nonpurchased goodwill is not included. The discussion of reliability in this Statement assumes a reasonably informed user (paragraphs 36-41), for example, one who understands that the information provided by financial reporting often results from approximate, rather than exact, measures involving numerous estimates, classifications, summarizations, judgments, and allocations. The following paragraphs elaborate on and illustrate the concept of representational faithfulness used in this Statement, including the considerations noted in this and the preceding paragraphs.

Degrees of Representational Faithfulness

65. The cost of acquiring assets is more often than not capable of being determined unambiguously, but that is by no means always the case. Thus, if a collection of assets is bought for a specified amount, the cost attributable to each individual item may be impossible to ascertain. The acquisition cost may also be difficult to determine if assets are acquired in exchange for assets other than cash, by issuing stock, or in transactions with related parties. If assets are converted into other assets within an enterprise, as when raw materials are converted into finished products, or buildings or equipment are constructed by an enterprise for its own use, the multiplicity of costing conventions that can be used, all within the boundaries of present generally accepted accounting principles, make it impossible to attach a unique cost to the finished asset. Thus, it may not be certain that the cost for the asset in the enterprise's records does faithfully represent its cost.

66. The problem of determining cost becomes more difficult if assets are fungible. If there have been several purchases at different prices and a number of disposals at different dates, only by the adoption of some convention (such as first-in, first-out) can a cost be attributed to the assets on hand at a particular date. Since what is shown as the assets' cost is only one of several alternatives, it is difficult to substantiate that the chosen amount does represent the economic phenomena in question.

67. In the absence of market prices for the assets in question, representational faithfulness of amounts purporting to be current costs or fair values of assets also involves the same kinds of difficulties as those already described. For example, unless there are markets for used equipment or partially processed products, the current costs or fair values of those assets can be determined only by means such as deducting estimated depreciation from current costs or fair values of similar new assets, applying price indexes to past acquisition costs, or combining the current costs of the materials, labor, and overhead used. The allocations required by those procedures inevitably cast at least some doubt on the representational faithfulness of the results.

68. As accounting concepts become more complex, assessing the faithfulness of accounting representations of economic phenomena becomes increasingly difficult, and separating relevance or effectiveness from reliability becomes much more difficult than in the drug example used earlier (paragraphs 60 and 61). Social scientists have much discussed the concept of representational faithfulness (which they call validity) in connection with educational testing, and though that field may seem remote from accounting, the difficulties that beset it in some respects bear a close resemblance to some of those encountered in accounting. If two students score 640 and 580, respectively, in a scholastic aptitude test of verbal skills, it is inferred that the first student has more verbal aptitude than the second. But does the test really measure verbal aptitude? Is it, in other words, a valid test of verbal aptitude? That is a very difficult question to answer, for what is verbal aptitude? Without a definition of the quality to be measured, the validity of the test cannot be assessed. The problem of defining intelligence and of judging whether intelligence tests validly measure it may be even more difficult because of the many different manifestations of intelligence, the problems of separating innate and acquired abilities, standardizing for differences in social conditions, and many other things.

69. The nature of the problem just described can be clarified by means of an example. A spelling test is administered orally to a group of students. The words are read aloud by the tester, and the students are required to write down the test words. Some students, though they can usually spell well, fail the test. The reason, it turns out, is that they have hearing problems. The test score purports to measure ability to spell, whereas it, in fact, is partly measuring aural acuity. The test score lacks true representational faithfulness.

70. Another example, perhaps more closely related to accounting, may serve to further highlight some possible ways in which a representation may not be faithful to the economic phenomena that it purports to represent. The Consumer Price Index for All Urban Consumers (CPI-U) is an index of price level changes affecting consumers generally and is often used to measure changes in the general purchasing power of the monetary unit itself. However, if it were used as a measure of the price change of a specific asset, a purchase of a specific consumer, or an acquisition of a specific enterprise, it would not

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likely provide a faithful representation. The CPI-U is a "market basket" index, based on the average price a typical consumer would pay for a selection of consumer goods. Specific price changes experienced by specific consumers will differ from the index to the extent their consumption patterns are different from the selection of goods in the index market basket if the price changes on the goods they purchase are not perfectly correlated to the changes in the index. General price indexes, such as the CPI-U, cannot acknowledge individual differences, but they may provide a reasonable measure of the loss in the general purchasing power of the monetary unit. The index must be interpreted in the context of what it was designed to do and in view of the limitations of any averaging process.

71. The discussion in the preceding paragraph illustrates some of the problems that may arise when representations of economic phenomena are used in different contexts than those for which they were designed. Accounting information, for example, purports to reflect the activities of a particular enterprise. However, aggregating the amounts reported by all businesses may not result in a faithful representation of total activity in the business sector, for that is not the purpose for which the accounting information was intended. Information that is representationally faithful in the context for which it was designed, therefore, may not be reliable when used in other contexts.

Precision and Uncertainty

72. Reliability does not imply certainty or precision. Indeed, any pretension to those qualities if they do not exist is a negation of reliability. Sometimes, a range within which an estimate may fall will convey information more reliably than can a single (point) estimate. In other cases, an indication of the probabilities attaching to different values of an attribute may be the best way of giving information reliably about the measure of the attribute and the uncertainty that surrounds it. Reporting accounting numbers as certain and precise if they are not is a negation of reliable reporting.

73. Different uses of information may require different degrees of reliability and, consequently, what constitutes a material loss or gain in reliability may vary according to use. An error in timekeeping of a few seconds a day will usually be acceptable to the owner of an ordinary wristwatch, whereas the same error would normally cause a chronometer to be judged unreliable. The difference is linked to use—a wristwatch is used for purposes for which accuracy within a few seconds (or perhaps a few minutes) is satisfactory; a chronometer is used for navigation, scientific work, and the like, uses for which a high degree of accuracy is required because an error of a few seconds or a fraction of a second may have large consequences. In everyday language, both the wristwatch and the chronometer are said to be reliable. By the standard of the chronometer, the wristwatch, in fact, is unreliable. Yet the watch's owner does not perceive it to be unreliable, for it is not expected to have the accuracy of a chronometer.

74. Fortunately, that is well understood by accountants. They recognize that a difference between an estimate and an accurate measurement may be material in one context and not material in another. The relationship between the concepts of reliability and materiality, including what constitutes *material* unreliability, will be discussed later in this Statement.

75. Reliability as a quality of a predictor has a somewhat different meaning from reliability as a quality of a measure. The reliability of a barometer should be judged in terms of the accuracy with which it measures air pressure and changes in air pressure. That is all that a barometer is constructed to do. Yet questions about its reliability are more likely to be couched in terms of its accuracy as a predictor of the weather, even though weather conditions in any location are the result of many factors besides air pressure in that location. Though much of the relevance of accounting information may derive from its value as input to a prediction model, the probability that it will lead to correct predictions does not determine its reliability as a set of measurements. The correctness of predictions depends as much on the predictive model used as on the data that go into the model. Thus, the result of a predictive process cannot be used to assess the reliability of the inputs into it any more than a run of successes by a barometer in forecasting the weather can tell us much about the accuracy with which it measures the pressure of the atmosphere.

76. The financial statements of a business enterprise can be thought of as a representation of the resources and obligations of an enterprise and the financial flows into, out of, and within the enterprise—as a model of the enterprise. Like all models, it must abstract from much that goes on in a real enterprise. No model, however sophisticated, can be expected to reflect all the functions and relationships that are found within a complex organization. To do so, the model would have to be virtually a reproduction of the original. In real life, it is necessary to accept a much smaller degree of correspondence between the model and the original than that. One can be satisfied if none of the important functions and relationships are lost. Before an accounting model—either the one now used or an alternative—can be judged to represent an enterprise reliably, it must be determined that none of the important financial functions of the enterprise or its relationships have been lost or distorted. The mere fact that model works—that when it receives inputs it produces

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outputs—gives no assurance that it faithfully represents the original. Just as a distorting mirror reflects a warped image of the person standing in front of it or just as an inexpensive loudspeaker fails to reproduce faithfully the sounds that went into the microphone or onto the phonograph records, so a bad model gives a distorted representation of the system that it models. The question that accountants must face continually is how much distortion is acceptable. The cost of a perfect sound reproduction system puts it out of reach of most people, and perfect reliability of accounting information is equally unattainable.

Effects of Bias

77. **Bias** in measurement is the tendency of a measure to fall more often on one side than the other of what it represents instead of being equally likely to fall on either side. Bias in accounting measures means a tendency to be consistently too high or too low.

78. Accounting information may not represent faithfully what it purports to represent because it has one or both of two kinds of bias. The measurement method may be biased, so that the resulting measurement fails to represent what it purports to represent. Alternatively, or additionally, the measurer, through lack of skill or lack of integrity, or both, may misapply the measurement method chosen. In other words, there may be bias, not necessarily intended, on the part of the measurer. Those two kinds of bias are further discussed in the following paragraphs and in the next section on "verifiability." Intentional bias introduced to attain a predetermined result or induce a particular mode of behavior is discussed under "neutrality" (paragraphs 98-110).

Completeness

79. Freedom from bias, both in the measurer and the measurement method, implies that nothing material is left out of the information that may be necessary to insure that it validly represents the underlying events and conditions. Reliability implies **completeness** of information, at least within the bounds of what is material and feasible, considering the cost. A map that is 99 percent reliable but fails to show a bridge across a river where one exists can do much harm. Completeness, however, must always be relative, for neither maps nor financial reports can show everything.

80. Completeness of information also affects its relevance. Relevance of information is adversely affected if a relevant piece of information is omitted, even if the omission does not falsify what is shown. For example, in a diversified enterprise a failure to disclose that one segment was consistently unprofitable would not, before the issuance of FASB Statement No. 14, *Accounting for Segments of a Business Enterprise*, have caused the financial reporting to be judged unreliable, but that financial reporting would have been (as it would now be) deficient in relevance. Thus, completeness, within the bounds of feasibility, is necessary to both of the primary qualities that make information useful.

Verifiability

81. The quality of verifiability contributes to the usefulness of accounting information because the purpose of verification is to provide a significant degree of assurance that accounting measures represent what they purport to represent. Verification is more successful in minimizing measurer bias than measurement bias, and thus contributes in varying degrees toward assuring that particular measures represent faithfully the economic things or events that they purport to represent. Verification contributes little or nothing toward insuring that measures used are relevant to the decisions for which the information is intended to be useful.

82. Measurer bias is a less complex concept than measurement bias. In its simplest form, it arises from intentional misrepresentation. But even honest measurers may get different results from applying the same measurement method, especially if it involves a prediction of the outcome of a future event, such as the realization of an asset. Measurer bias can be detected and eliminated by having the measurement repeated with the same result. It is, therefore, a desirable quality of an accounting measure that it should be capable of replication. The Accounting Principles Board (APB) called this characteristic verifiability, and defined it in APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises:* "Verifiable financial accounting information provides results that would be substantially duplicated by independent measurers using the same measurement methods" (paragraph 90).

83. The last five words of the APB's definition are significant for they imply that alternative methods may be available. Verification does not guarantee the appropriateness of the method used, much less the correctness of the resulting measure. It does carry some assurance that the measurement rule used, whatever it was, was applied carefully and without personal bias on the part of the measurer.

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84. Verification implies consensus. Verifiability can be measured by looking at the dispersion of a number of independent measurements of some particular phenomenon. The more closely the measurements are likely to be clustered together, the greater the verifiability of the number used as a measure of the phenomenon.

85. Some accounting measurements are more easily verified than others. Alternative measures of cash will be closely clustered together, with a consequently high level of verifiability. There will be less unanimity about receivables (especially their net value), still less about inventories, and least about depreciable assets, for there will be disagreements about depreciation methods to be used, predictions of asset lives, and (if book values are based on historical cost) even which expenditures should be included in the investment base. More than one empirical investigation has concluded that accountants may agree more about estimates of the market values of certain depreciable assets than about their carrying values. Hence, to the extent that verification depends on consensus, it may not always be those measurement methods widely regarded as "objective" that are most verifiable.

86. The elimination of measurer bias alone from information does not insure that the information will be reliable. Even though several independent measurers may agree on a single measurement method and apply it honestly and skillfully, the result will not be reliable if the method used is such that the measure does not represent what it purports to represent. Representational faithfulness of reported measurements lies in the closeness of their correspondence with the economic transactions, events, or circumstances that they represent.

87. Two further points about verifiability and representational faithfulness need to be emphasized. First, when accountants speak of verification they may mean either that an accounting measure itself has been verified or only that the procedures used to obtain the measure have been verified. For example, the price paid to acquire a block of marketable securities or a piece of land is normally directly verifiable, while the amount of depreciation for a period is normally only indirectly verifiable by verifying the depreciation method, calculations used, and consistency of application (paragraphs 65-67). Direct verification of accounting measures tends to minimize both personal bias introduced by a measurer (measurer bias) and bias inherent in measurement methods (measurement bias). Verification of only measurement methods tends to minimize measurer bias but usually preserves any bias there may be in the selection of measurement or allocation methods.

88. Second, measurement or allocation methods are often verifiable even if the measures they produce result in a very low degree of representational faithfulness. For example, before FASB Statement No. 5, *Accounting for Contingencies*, some enterprises that were "self-insured" recorded as an expense a portion of expected future losses from fire, flood, or other casualties. If an enterprise had a large number of "self-insured" assets, expectations of future losses could be actuarially computed, and the methods of allocating expected losses to periods could be readily verified. However, since uninsured losses occurred only when a casualty damaged or destroyed a particular asset or particular assets, the representational faithfulness of the resulting allocated measures was very low. In years in which no casualties were suffered by an enterprise, the allocated expenses or losses represented nonexistent transactions or events; while in years in which assets were actually damaged or destroyed, the allocated expenses or losses may have fallen far short of representing the losses.

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89. In summary, verifiability means no more than that several measurers are likely to obtain the same measure. It is primarily a means of attempting to cope with measurement problems stemming from the uncertainty that surrounds accounting measures and is more successful in coping with some measurement problems than others. Verification of accounting information does not guarantee that the information has a high degree of representational faithfulness, and a measure with a high degree of verifiability is not necessarily relevant to the decision for which it is intended to be useful.

Reliability and Relevance

90. Reliability and relevance often impinge on each other. Reliability may suffer when an accounting method is changed to gain relevance, and vice versa. Sometimes it may not be clear whether there has been a loss or gain either of relevance or of reliability. The introduction of current cost accounting will illustrate the point. Proponents of current cost accounting believe that current cost income from continuing operations is a more relevant measure of operating performance than is operating profit computed on the basis of historical costs. They also believe that if holding gains and losses that may have accrued in past periods are separately displayed, current cost income from continuing operations better portrays operating performance. The uncertainties surrounding the determination of current costs, however, are considerable, and variations among estimates of their magnitude can be expected. Because

of those variations, verifiability or representational faithfulness, components of reliability, might diminish. Whether there is a net gain to users of the information obviously depends on the relative weights attached to relevance and reliability (assuming, of course, that the claims made for current cost accounting are accepted).

Conservatism

91. Nothing has yet been said about **conservatism**, a convention that many accountants believe to be appropriate in making accounting decisions. To quote APB Statement 4:

> Frequently, assets and liabilities are measured in a context of significant uncertainties. Historically, managers, investors, and accountants have generally preferred that possible errors in measurement be in the direction of understatement rather than overstatement of net income and net assets. This has led to the convention of conservatism. . . [paragraph 171].

92. There is a place for a convention such as conservatism—meaning prudence—in financial accounting and reporting, because business and economic activities are surrounded by uncertainty, but it needs to be applied with care. Since a preference "that possible errors in measurement be in the direction of understatement rather than overstatement of net income and net assets" introduces a bias into financial reporting, conservatism tends to conflict with significant qualitative characteristics, such as representational faithfulness, neutrality, and comparability (including consistency). To be clear about what conservatism does not mean may often be as important as to be clear about what it means.

93. Conservatism in financial reporting should no longer connote deliberate, consistent understatement of net assets and profits. The Board emphasizes that point because conservatism has long been identified with the idea that deliberate understatement is a virtue. That notion became deeply ingrained and is still in evidence despite efforts over the past 40 years to change it. The convention of conservatism, which was once commonly expressed in the admonition to "anticipate no profits but anticipate all losses," developed during a time when balance sheets were considered the primary (and often only) financial statement, and details of profits or other operating results were rarely provided outside business enterprises. To the bankers or other lenders who were the principal external users of financial statements, understatement for its own sake became widely considered to be desirable, since the greater the understatement of assets the greater the margin of safety the assets provided as security for loans or other debts.

94. Once the practice of providing information about periodic income as well as balance sheets became common, however, it also became evident that understated assets frequently led to overstated income in later periods. Perceptive accountants saw that consistent understatement was difficult to maintain over a lengthy period, and the Committee on Accounting Procedure began to say so, for example, in ARB No. 3, *Quasi-Reorganization or Corporate Readjustment—Amplification of Institute Rule No. 2 of 1934:* "Understatement as at the effective date of the readjustment of assets which are likely to be realized thereafter, though it may result in conservatism in the balance-sheet, may also result in overstatement of earnings or of earned surplus when the assets are subsequently realized. Therefore, in general, assets should be carried forward as of the date of readjustment at a fair and not unduly conservative value." The Committee also formulated the "cost or market rule" in ARB No. 29, *Inventory Pricing,* in such a way that decreases in replacement costs do not result in writing down inventory unless (a) the expected selling price also decreases or (b) costs to complete and sell inventory increase; unless those conditions are met, recognition of a loss by writing down inventory merely increases income in one or more later periods. (ARB 3 and 29 became, respectively, chapters 7A and 4 of ARB No. 43, *Restatement and Revision of Accounting Research Bulletins*). Among the most recent admonitions on the point is that of the International Accounting Standards Committee (IASC) in International Accounting Standard No. 1, *Disclosure of Accounting Policies*: "Uncertainties inevitably surround many transactions. This should be recognized by exercising prudence in preparing financial statements. Prudence does not, however, justify the creation of secret or hidden reserves."

95. Conservatism is a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered. Thus, if two estimates of amounts to be received or paid in the future are about equally likely, conservatism dictates using the less optimistic estimate; however, if two amounts are not equally likely, conservatism does not necessarily dictate using the more pessimistic amount rather than the more likely one. Conservatism no longer requires deferring recognition of income beyond the time that adequate evidence of its existence becomes available or justifies recognizing losses before there is adequate evidence that they have been incurred.

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96. The Board emphasizes that any attempt to understate results consistently is likely to raise questions about the reliability and the integrity of information about those results and will probably be self-defeating in the long run. That kind of reporting, however well-intentioned, is not consistent with the desirable characteristics described in this Statement. On the other hand, the Board also emphasizes that imprudent reporting, such as may be reflected, for example, in overly optimistic estimates of realization, is certainly no less inconsistent with those characteristics. Bias in estimating components of earnings, whether overly conservative or unconservative, usually influences the timing of earnings or losses rather than their aggregate amount. As a result, unjustified excesses in either direction may mislead one group of investors to the possible benefit or detriment of others.

97. The best way to avoid the injury to investors that imprudent reporting creates is to try to ensure that what is reported represents what it purports to represent. It has been pointed out in this Statement that the reliability of financial reporting may be enhanced by disclosing the nature and extent of the uncertainty surrounding events and transactions reported to stockholders and others. In assessing the prospect that as yet uncompleted transactions will be concluded successfully, a degree of skepticism is often warranted. The aim must be to put the users of financial information in the best possible position to form their own opinion of the probable outcome of the events reported. Prudent reporting based on a healthy skepticism builds confidence in the results and, in the long run, best serves all of the divergent interests that are represented by the Board's constituents.

NEUTRALITY

98. Neutrality in accounting has a greater significance for those who set accounting standards than for those who have to apply those standards in preparing financial reports, but the concept has substantially the same meaning for the two groups, and both will maintain neutrality in the same way. Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest.

99. To say that information should be free from bias towards a predetermined result is not to say that standard setters or providers of information should not have a *purpose* in mind for financial reporting. Of course, information must be purposeful. But a predetermined purpose should not imply a predetermined result. For one thing, the purpose may be to serve many different information users who have diverse interests, and no one predetermined result is likely to suit them all.

100. Neutrality does not mean "without purpose," nor does it mean that accounting should be without influence on human behavior. Accounting information cannot avoid affecting behavior, nor should it. If it were otherwise, the information would be valueless—by definition, irrelevant—and the effort to produce it would be futile. It is, above all, the predetermination of a desired result, and the consequential selection of information to induce that result, that is the negation of neutrality in accounting. To be neutral, accounting information must report economic activity as faithfully as possible, without coloring the image it communicates for the purpose of influencing behavior in *some particular direction*.

101. Behavior will be influenced by financial information just as it is influenced and changed by the results of elections, college examinations, and sweepstakes. Elections, examinations, and sweepstakes are not unfair—nonneutral—merely because some people win and others lose. So it is with neutrality in accounting. The effect of "capitalization" of leases on enterprises in the leasing industry is a case in point. Recording of certain leases as assets and liabilities has been opposed by many of those enterprises on the grounds that, by making "off balance sheet" financing more difficult, it would make leasing less attractive to lessees, and that would have a detrimental effect on the business of lessors. Although it is at least debatable whether that kind of effect actually would result from lease capitalization, standard setters have not been indifferent to those fears. After carefully weighing the matter, various standard setters (including the Board) have generally concluded that those fears could not be allowed to stand in the way of what the Board and others considered to be a gain in the relevance and reliability of financial statements.

102. Some reject the notion of accounting neutrality because they think it is impossible to attain because of the "feedback effect." Information that reports on human activity itself influences that activity, so that an accountant is reporting not on some static phenomenon but on a dynamic situation that changes because of what is reported about it. But that is not an argument against neutrality in measurement. Many measurements relating to human beings—what they see when they step on a scale, what the speedometer registers when they drive a car, their performance in an athletic contest, or their academic

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performance, for example—have an impact on their behavior, for better or worse. No one argues that those measurements should be biased in order to influence behavior. Indeed, most people are repelled by the notion that some "big brother," whether government or private, would tamper with scales or speedometers surreptitiously to induce people to lose weight or obey speed limits or would slant the scoring of athletic events or examinations to enhance or decrease someone's chances of winning or graduating. There is no more reason to abandon neutrality in accounting measurement.

103. Another argument against the acceptance of neutrality as a necessary characteristic of accounting information is that it would inhibit the Board from working for the achievement of national goals. That view raises several issues. First, there would have to be agreement on national goals. For example, should the United States work to make energy cheap and plentiful or should it conserve natural resources for the benefit of posterity? Furthermore, governments come and go, and administrations change their political color and their policies. The Board concludes that it is not feasible to change financial accounting standards that accountants use every time governmental policy changes direction, even if it were desirable to do so. Moreover, only if accounting information is neutral can it safely be used to help guide those policies as well as to measure their results.

104. But more importantly, it is not desirable for the Board to tack with every change in the political wind, for politically motivated standards would quickly lose their credibility, and even standards that were defensible if judged against the criteria discussed in this Statement would come under suspicion because they would be tainted with guilt by association. The chairman of the SEC made the point in his statement on oil and gas accounting on August 29, 1978:

> If it becomes accepted or expected that accounting principles are determined or modified in order to secure purposes other than economic measurement—even such virtuous purposes as energy production—we assume a grave risk that confidence in the credibility of our financial information system will be undermined.

105. For a standard to be neutral, it is not necessary that it treat everyone alike in all respects. A standard could require less disclosure from a small enterprise than it does from a large one without having its neutrality impugned, if the Board were satisfied that a requirement that was cost-effective if imposed on a large enterprise would be more burdensome than it was worth if imposed on a small one. Nevertheless, in general, standards that apply differentially need to be looked at carefully to ensure that the criterion of neutrality is not being transgressed.

106. While rejecting the view that financial accounting standards should be slanted for political reasons or to favor one economic interest or another, the Board recognizes that a standard-setting authority must be alert to the economic impact of the standards that it promulgates. The consequences of those standards will usually not be easy to isolate from the effects of other economic happenings, and they will be even harder to predict with confidence when a new standard is under consideration but before it has gone into effect. Nevertheless, the Board will consider the probable economic impact of its standards as best it can and will monitor that impact as best it can after a standard goes into effect. For one thing, a markedly unexpected effect on business behavior may point to an unforeseen deficiency in a standard in the sense that it does not result in the faithful representation of economic phenomena that was intended. It would then be necessary for the standard to be revised.

107. Neutrality in accounting is an important criterion by which to judge accounting policies, for information that is not neutral loses credibility. If information can be verified and can be relied on faithfully to represent what it purports to represent—*and if there is no bias in the selection of what is reported*—it cannot be slanted to favor one set of interests over another. It may in fact favor certain interests, but only because the information points that way, much as a good examination grade favors a good student who has honestly earned it.

108. The italicized words deserve comment. It was noted earlier in this Statement that reliability implies completeness of information, at least within the bounds of what is material and feasible, considering the cost. An omission can rob information of its claim to neutrality if the omission is material and is intended to induce or inhibit some particular mode of behavior.

109. Though reliability and the absence of bias in what is to be reported bring neutrality as a by-product, the converse is not true. Information may be unreliable even though it is provided without any intention on the part of the provider to influence behavior in a particular direction. Good intentions alone do not guarantee representational faithfulness.

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110. Can information that is undeniably reliable produce undesirable consequences? The answer must be another question—consequences for whom? The consequences may indeed be bad for some interests. But the dissemination of unreliable and potentially misleading information is, in the long run, bad for all interests. It may be the responsibility of other agencies to intervene to take care of special interests that they think might be injured by an accounting standard. The Board's responsibility is to the integrity of the financial reporting system, which it regards as its paramount concern.

COMPARABILITY

111. Information about an enterprise gains greatly in usefulness if it can be compared with similar information about other enterprises and with similar information about the same enterprise for some other period or some other point in time. The significance of information, especially quantitative information, depends to a great extent on the user's ability to relate it to some benchmark. The comparative use of information is often intuitive, as when told that an enterprise has sales revenue of $1,000,000 a year, one forms a judgment of its size by ranking it with other enterprises that one knows. Investing and lending decisions essentially involve evaluations of alternative opportunities, and they cannot be made rationally if comparative information is not available.

112. The difficulty in making financial comparisons among enterprises because of the use of different accounting methods has been accepted for many years as the principal reason for the development of accounting standards. Indeed, the only other possible reason for wanting accounting standards would be a belief that there was one right method among the available alternatives, and few people, if any, hold any such belief.

113. The purpose of comparison is to detect and explain similarities and differences. But, in comparing complex entities, such as human beings or business enterprises, it is useless to try to consider all similarities and differences at once, for to assess the significance of any one of them will then be impossible. Valid comparison, therefore, usually requires attention to be focused on one or two characteristics at a time. Other characteristics that are in no way correlated with those under inquiry can be ignored. Characteristics that are correlated with those under inquiry must be standardized to avoid affecting the comparison. For example, to find whether a man is overweight, one compares his weight with that of other men—not women—of the same height. That is, valid comparisons involve standardizing for gender and height because those characteristics are correlated with weight. It is not necessary to standardize for intelligence, for example, by comparing a man's weight with that of other males of similar height and intelligence because weight is not correlated with intelligence. Intelligence as a characteristic can be ignored.

114. Simple comparisons can often be made without the use of measurements expressed in units, but as the number of items to be compared increases, or if comparisons over an interval of time are desired, a unit of measure becomes indispensable. If valid comparisons are to be made over time, the unit of measurement used must be invariant. Units of money used in money measurement are not in one significant sense—their command over goods and services—invariant over time.

115. Defined in the broadest terms, comparability is the quality or state of having certain characteristics in common, and comparison is normally a quantitative assessment of the common characteristic. Clearly, valid comparison is possible only if the measurements used—the quantities or ratios—reliably represent the characteristic that is the subject of comparison. To cite a nonaccounting example, it may be desired to compare the fertility of land in Florida and Oregon. If that were done by comparing crop yields per acre, it should be obvious that crop yield is not a reliable representation of fertility. Many other factors, such as climate and human efficiency, help to determine yields, and to use too broad a gauge to measure the characteristic of fertility invalidates the comparison.

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116. While a particular datum, in some appropriate context, can be said to be relevant or reliable, it cannot be said to be comparable. Comparability is not a quality of information in the same sense as relevance and reliability are, but is rather a quality of the relationship between two or more pieces of information. Improving comparability may destroy or weaken relevance or reliability if, to secure comparability between two measures, one of them has to be obtained by a method yielding less relevant or less reliable information. Historically, extreme examples of this have been provided in some European countries in which the use of standardized charts of accounts has been made mandatory in the interest of interfirm comparability but at the expense of relevance and often reliability as well. That kind of uniformity may even adversely affect comparability of information if it conceals real differences between enterprises.

117. Generally, noncomparability is thought to arise because business enterprises do not use similar inputs, do not apply similar procedures, or do not use the same systems of classification of costs and revenues or assets and liabilities, and it is usually assumed that removal of those inconsistencies will make the results comparable. Certainly, comparability cannot be achieved without consistency of inputs and classification. For example, comparing liquidity between two enterprises by comparing their current ratios would usually not be valid if one enterprise valued its inventory on a last-in, first-out basis while the other valued inventory on first-in, first-out. The difference in practice would affect the comparison adversely to the first company, but its appearance of inferior liquidity would result from an invalid comparison, for the current value of its inventory may not have been less than that of the other company.

118. That kind of noncomparability imposes costs on users of financial statements and is best avoided, but it is relatively easy to diagnose and, with sufficient disclosure, can be rectified by a user of the information. A more difficult kind of noncomparability to deal with is the kind that results when ill-chosen or incomplete data inputs are used to generate information that fails one test of reliability—it does not truly represent what it purports to represent. If data inputs are ill-chosen or incomplete, the measures that result will not be truly comparable no matter how consistent the procedures are that are applied to them. For example, suppose it is desired to compare the performance of two investment managers. Each starts with the same portfolio, but their portfolios at the end of the year are different as a result of trades during the year. Realized gains of the two managers are equal. The ending portfolio of one shows substantial unrealized gains, the other does not. To compare their performance by comparing only realized gains implies a definition of performance that many people would regard as incomplete and, therefore, as an unreliable representation.

119. To repeat what was said earlier, the purpose of comparison is to detect and explain similarities and differences. Comparability should not be confused with identity, and sometimes more can be learned from differences than from similarities if the differences can be explained. The ability to explain phenomena often depends on the diagnosis of the underlying causes of differences or the discovery that apparent differences are without significance. Much insight into the functioning of the capital market, for example, has been obtained from observing how market forces affect different stocks differently. Something has been learned, too, from observing that the market generally ignores apparent (cosmetic) differences among stocks that were formerly thought to be significant. Greater comparability of accounting information, which most people agree is a worthwhile aim, is not to be attained by making unlike things look alike any more than by making like things look different. The moral is that in seeking comparability accountants must not disguise real differences nor create false differences.

Consistency

120. Consistency in applying accounting methods over a span of time has always been regarded as an important quality that makes accounting numbers more useful. The standard form of an auditor's report states that the financial statements have been prepared "in conformity with generally accepted accounting principles consistently applied." The Accounting Principles Board stated in APB Opinion No. 20, *Accounting Changes*, that ". . .in the preparation of financial statements there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type. Consistent use of accounting principles from one accounting period to another enhances the utility of financial statements to users by facilitating analysis and understanding of comparative accounting data [paragraph 15]."

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121. The same considerations apply whether comparisons involve time series data, with which discussions of consistency are mostly concerned, or cross-sectional data, which raise more general issues of comparability. Like comparability, consistency is a quality of the relationship between two accounting numbers rather than a quality of the numbers themselves in the sense that relevance and reliability are. The consistent use of accounting methods, whether from one period to another within a single firm, or within a single period across firms, is a necessary but not a sufficient condition of comparability. Consistency without genuine comparability is illustrated by time series data using units of money during periods of inflation. A 10-year summary of sales revenues covering a period when the purchasing power of the monetary unit has been declining may convey an exaggerated picture of growth unless the user of the information is accustomed to making purchasing power corrections. As before, it is the representational faithfulness of the measurements used, rather than simply the unchanging nature of the measurement rules or the classification rules, that results in true comparability over time.

122. Consistent use of accounting principles from one accounting period to another, if pushed too far, can inhibit accounting progress. No change to a preferred accounting method can be made without sacrificing consistency, yet there is no way that accounting can develop without change. Fortunately, it is possible to make the transition from a less preferred to a more preferred method of accounting and still retain the capacity to compare the periods before

and after the change if the effects of the change of method are disclosed. If a change will bring only a small improvement, the trade-off between the improvement and the loss of consistency may make it hard to judge where the advantage lies. As in all trade-offs, it is a question of costs and benefits; and the costs include the psychological cost of adopting the change. If the cost of the added disclosure that will enable the user of accounting information to compare the prechange and postchange results is less than the expected benefits from making the change, the change should be made.

MATERIALITY

123. Those who make accounting decisions and those who make judgments as auditors continually confront the need to make judgments about materiality. Materiality judgments are primarily quantitative in nature. They pose the question: Is this item large enough for users of the information to be influenced by it? However, the answer to that question will usually be affected by the nature of the item; items too small to be thought material if they result from routine transactions may be considered material if they arise in abnormal circumstances.

124. Throughout this Statement, emphasis has been placed on relevance and reliability as the primary qualitative characteristics that accounting information must have if it is to be useful. Materiality is not a primary characteristic of the same kind. In fact, the pervasive nature of materiality makes it difficult to consider the concept except as it relates to the other qualitative characteristics, especially relevance and reliability.

125. Relevance and materiality have much in common—both are defined in terms of what influences or makes a difference to an investor or other decision maker. Yet the two concepts can be distinguished. A decision not to disclose certain information may be made, say, because investors have no interest in that kind of information (it is not relevant) or because the amounts involved are too small to make a difference (they are not material). But as was noted above, magnitude by itself, without regard to the nature of the item and the circumstances in which the judgment has to be made, will not generally be a sufficient basis for a materiality judgment.

126. Materiality judgments are concerned with screens or thresholds. Is an item, an error, or an omission large enough, considering its nature and the attendant circumstances, to pass over the threshold that separates material from immaterial items? An example of an applicant for employment who is negotiating with an employment agency will illustrate the relationship of the materiality concept to relevance and reliability. The agency has full information about a certain job for which the applicant is suited and will furnish any item of information about it. The applicant will certainly want information about the nature of the duties, the location of the job, the pay, the hours of work, and the fringe benefits. Information about vacations and job security may or may not be important enough to affect a decision concerning accepting the job. Further, the applicant may not be concerned at all with whether the office floor is carpeted or about the quality of the food in the cafeteria. All of those items are, in the broadest sense, relevant to an evaluation of the job. But some of them make no difference in a decision to accept it or not. The values placed on them by the applicant are too small for them to be material. They are not important enough to matter.

127. The employment agency example can also help to explain what is meant by a materiality threshold for reliability. Salary information accurate only to the nearest thousand dollars might not be acceptable to an applicant for an $8,000 a year job, but will almost certainly be acceptable if the job pays $100,000 a year. An error of a percentage point in the employee's rate of pension contribution would rarely make information about fringe benefits unacceptable. An error of a year in the retirement date of someone who would block the applicant's advancement might be quite material. An error of a year in the applicant's mandatory retirement date will probably be immaterial to a person 20 years old, but quite material to a 63-year-old person.

128. The more important a judgment item is, the finer the screen should be that will be used to determine whether it is material. For example:

a. An accounting change in circumstances that puts an enterprise in danger of being in breach of covenant regarding its financial condition may justify a lower materiality threshold than if its position were stronger.

b. A failure to disclose separately a nonrecurrent item of revenue may be material at a lowerthreshold than would otherwise be the case if the revenue turns a loss into a profit or reverses the trend of earnings from a downward to an upward trend.

c. A misclassification of assets that would not be material in amount if it affected two categories of plant or equipment might be material if it changed the classification between a noncurrent and a current asset category.

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d. Amounts too small to warrant disclosure or correction in normal circumstances may be considered material if they arise from abnormal or unusual transactions or events.

129. Almost always, the relative rather than the absolute size of a judgment item determines whether it should be considered material in a given situation. Losses from bad debts or pilferage that could be shrugged off as routine by a large business may threaten the continued existence of a small one. An error in inventory valuation may be material in a small enterprise for which it cut earnings in half but immaterial in an enterprise for which it might make a barely perceptible ripple in the earnings. Some of the empirical investigations referred to in Appendix C throw light on the considerations that enter into materiality judgments.

130. Another factor in materiality judgments is the degree of precision that is attainable in estimating the judgment item. The amount of deviation that is considered immaterial may increase as the attainable degree of precision decreases. For example, accounts payable usually can be estimated more accurately than can contingent liabilities arising from litigation or threats of it, and a deviation considered to be material in the first case may be quite trivial in the second.

131. Some hold the view that the Board should promulgate a set of quantitative materiality guides or criteria covering a wide variety of situations that preparers could look to for authoritative support. That appears to be a minority view, however, on the basis of representations made to the Board in response to the Discussion Memorandum, *Criteria for Determining Materiality*. The predominant view is that materiality judgments can properly be made only by those who have all the facts. The Board's present position is that no general standards of materiality could be formulated to take into account all the considerations that enter into an experienced human judgment. However, that position is not intended to imply either that the Board may not in the future review that conclusion or that quantitative guidance on materiality of specific items may not appropriately be written into the Board's standards from time to time. That has been done on occasion already (for example, in the Statement on financial reporting by segments of a business enterprise), and the Board recognizes that quantitative materiality guidance is sometimes needed. Appendix C lists a number of examples of quantitative guidelines that have been applied both in the law and in the practice of accounting. However, whenever the Board or any other authoritative body imposes materiality rules, it is substituting generalized collective judgments for specific individual judgments, and there is no reason to suppose that the collective judgments are always superior. In any case, it must be borne in mind that if, to take one example, some minimum size is stipulated for recognition of a material item (for example, a segment having revenue equal to or exceeding 10 percent of combined revenues shall be recognized as a reportable segment), the rule does not prohibit the recognition of a smaller segment. Quantitative materiality guidelines generally specify minima only. They, therefore, leave room for individual judgment in at least one direction.

132. Individual judgments are required to assess materiality in the absence of authoritative criteria or to decide that minimum quantitative criteria are not appropriate in particular situations. The essence of the materiality concept is clear. The omission or misstatement of an item in a financial report is material if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item.

COSTS AND BENEFITS

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133. Accounting information must attain some minimum level of relevance and also some minimum level of reliability if it is to be useful. Beyond those minimum levels, sometimes users may gain by sacrificing relevance for added reliability or by sacrificing reliability for added relevance; and some accounting policy changes will bring gains in both. Each user will uniquely perceive the relative value to be attached to each quality. Ultimately, a standard-setting body has to do its best to meet the needs of society as a whole when it promulgates a standard that sacrifices one of those qualities for the other; and it must also be aware constantly of the calculus of costs and benefits.

134. Unless the benefits to be derived from a commodity or service exceed the costs associated with it, it will not be sought after. When a decision to acquire a commodity is being considered, the prospective buyer will compare the costs of acquisition and maintenance with the benefits of owning the commodity. Once the purchase has been made, the owner must decide—continually, from day to day—whether the opportunity cost of ownership, the sacrifice of the sale price that cannot be realized so long as ownership continues, is less than the benefits of continued ownership. Thus, both before and after acquisition, costs and benefits must be compared, though the comparison takes a somewhat different form according to whether the acquisition has or has not been consummated.

135. Financial information is unlike other commodities in certain important respects. While, in general, it will not be desired unless its benefits exceed its costs, what makes it different from other commodities, or at least from those that are traded in the marketplace, is that whereas those other commodities are private goods, to be enjoyed only by the buyer and those with whom the buyer chooses to share them, the benefits of information cannot always be confined to those who pay for it. If the whole government and private system by which the flow of financial information is regulated could now be dismantled, if information could be traded between buyers and sellers like other commodities and could be kept from those who did not pay for it, and if consumers of information were willing to rely on their own inquiries, the balance of costs and benefits could be left to the market. But in the real world the market for information is less complete than most other markets, and a standard-setting authority must concern itself with the perceived costs and benefits of the standards it sets—costs and benefits to both users and preparers of such information, to others, like auditors, who are also concerned with it, and to anyone else in society who may be affected.

136. Most of the costs of providing financial information fall initially on the preparers, while the benefits are reaped by both preparers and users. Ultimately, the costs and benefits are diffused quite widely. The costs are mostly passed on to the users of information and to the consumers of goods and services. The benefits also are presumably passed on to consumers by assuring a steady supply of goods and services and more efficient functioning of the marketplace. But, even if the costs and benefits are not traced beyond the preparers and users of information, to say anything precise about their incidence is difficult. There are costs of using information as well as of preparing it; and much published information would be compiled for the preparer's own use even if providing it to stockholders and others were not required. The preparer enjoys other benefits also, such as improved access to capital markets, favorable impact on the enterprise's public relations, and so on.

137. The costs of providing information are of several kinds, including costs of collecting and processing the information, costs of audit if it is subject to audit, costs of disseminating it to those who must receive it, costs associated with the dangers of litigation, and in some instances costs of disclosure in the form of a loss of competitive advantages vis-a-vis trade competitors, labor unions (with a consequent effect on wage demands), or foreign enterprises. The costs to the users of information, over and above those costs that preparers pass on to them, are mainly the costs of analysis and interpretation and may include costs of rejecting information that is redundant, for the diagnosis of redundancy is not without its cost.

138. Society needs information to help allocate resources efficiently, but the benefit to any individual or company from that source is not measurable. Nor is the spur to efficiency that comes from making managers account to stockholders capable of evaluation, either at the level of the enterprise or the economy. It is impossible to imagine a highly developed economy without most of the financial information that it now generates and, for the most part, consumes; yet it is also impossible to place a value on that information.

139. From the point of view of society, the loss of competitive advantage that is said to result from some disclosure requirements is clearly in a different category from the other costs involved. Although the loss to one business enterprise may be a gain to another, the Board is aware of and concerned about the economic effects of the possible discouragement of initiative, innovation, and willingness to take risks if a reward to risk taking is denied. That is another cost that is impossible to begin to quantify.

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140. The burden of the costs and the incidence of benefits fall quite unevenly throughout the economy, and it has been rightly observed that "... the matter of establishing disclosure requirements becomes not only a matter of judgment but also a complex balancing of many factors so that all costs and benefits receive the consideration they merit. For example, a simple rule that any information useful in making investment decisions should be disclosed fails as completely as a rule that says disclosure should not be required if competitive disadvantage results." The problem is to know how to accomplish that "complex balancing."

141. The Board has watched with sympathetic interest the efforts of the Cost Accounting Standards Board (CASB) to come to grips with the task of comparing the costs and benefits of its standards. The Report of the special group of consultants who were asked by the CASB to examine this matter was submitted on November 13, 1978. The conclusions were quite negative.

> Our conclusion is that no objective cost benefit calculation in aggregate quantitative terms is possible for CASB standards as a whole or for any of them individually. Reasonable people, with some experience in such matters, acting responsibly in a spirit of compromise, using such reliable information as can be gathered together, will make a "calculation," as they must if anything is to be done. But the calculation will be in ordinal rather

than cardinal terms; it will be rough rather than precise; it will always be subject to revision, rather than fixed in stone. The situation is not different from that concerning the merits of many other laws, rules, regulations, and administrative decisions. Nor is our conclusion different from the conclusion reached by those concerned with the cost-benefit problem confronting the Paperwork Commission, for example.

142. As the CASB's consultants point out, the reasons for that negative conclusion can be simply stated. The costs and benefits of a standard are both direct and indirect, immediate and deferred. They may be affected by a change in circumstances not foreseen when the standard was promulgated. There are wide variations in the estimates that different people make about the dollar values involved and the rate of discount to be used in reducing them to a present value. "For these reasons," the consultants conclude, "the merits of any Standard, or of the Standards as a whole, can be decided finally only by judgments that are largely subjective. They cannot be decided by scientific test."

143. Despite the difficulties, the Board does not conclude that it should turn its back on the matter, for there are some things that it can do to safeguard the cost-effectiveness of its standards. Before a decision is made to develop a standard, the Board needs to satisfy itself that the matter to be ruled on represents a significant problem and that a standard that is promulgated will not impose costs on the many for the benefit of a few. If the proposal passes that first test, a second test may subsequently be useful. There are usually alternative ways of handling an issue. Is one of them less costly and only slightly less effective? Even if absolute magnitudes cannot be attached to costs and benefits, a comparison between alternatives may yet be possible and useful.

144. Though it is unlikely that significantly improved means of measuring benefits will become available in the foreseeable future, it seems possible that better ways of quantifying the incremental costs of regulations of all kinds may gradually be developed, and the Board will watch any such developments carefully to see whether they can be applied to financial accounting standards. Even if that hope proves to be a vain one, however, the Board cannot cease to be concerned about the cost-effectiveness of its standards. To do so would be a dereliction of its duty and a disservice to its constituents.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman* Robert A. Morgan Robert T. Sprouse
Frank E. Block David Mosso Ralph E. Walters
John W. March

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Statement of Financial Accounting Concepts No. 5

Recognition and Measurement in Financial

Statements of Business Enterprises

CON5 Status

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Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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[*Best understood in context of full Statement*]

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- This Statement sets forth recognition criteria and guidance on what information should be incorporated into financial statements and when. The Statement provides a basis for consideration of criteria and guidance by first addressing financial statements that should be presented and their contribution to financial reporting. It gives particular attention to statements of earnings and comprehensive income. The Statement also addresses certain measurement issues that are closely related to recognition.

- Financial statements are a central feature of financial reporting—a principal means of communicating financial information to those outside an entity. Some useful information is better provided by financial statements and some is better provided, or can only be provided, by notes to financial statements, supplementary information, or other means of financial reporting. For items that meet criteria for recognition, disclosure by other means is not a substitute for recognition in financial statements.

- Recognition is the process of formally incorporating an item in the financial statements of an entity as an asset, liability, revenue, expense, or the like. A recognized item is depicted in both words and numbers, with the amount included in the statement totals.

- A full set of financial statements for a period should show:

- Financial position at the end of the period
- Earnings for the period
- Comprehensive income for the period
- Cash flows during the period
- Investments by and distributions to owners during the period.

- Financial statements individually and collectively contribute to meeting the objectives of financial reporting. No one financial statement is likely to provide all the financial statement information that is useful for a particular kind of decision.

- The parts of a financial statement also contribute to meeting the objectives of financial reporting and may be more useful to those who make investment, credit, and similar decisions than the whole.

- Financial statements result from simplifying, condensing, and aggregating masses of data. As a result, they convey information that would be obscured if great detail were provided. Although those simplifications, condensations, and aggregations are both necessary and useful, the Board believes that it is important to avoid focusing attention almost exclusively on "the bottom line," earnings per share, or other highly simplified condensations.

- A statement of financial position provides information about an entity's assets, liabilities, and equity and their relationships to each other at a moment in time. The statement delineates the entity's resource structure—major classes and amounts of assets—and its financing structure—major classes and amounts of liabilities and equity.

- A statement of financial position does not purport to show the value of a business enterprise but, together with other financial statements and other information, should provide information that is useful to those who desire to make their own estimates of the enterprise's value. Those estimates are part of financial analysis, not of financial reporting, but financial accounting aids financial analysis.

- Statements of earnings and of comprehensive income together reflect the extent to which and the ways in which the equity of an entity increased or decreased from all sources other than transactions with owners during a period.

- The concept of earnings set forth in this Statement is similar to net income for a period in present practice; however, it excludes certain accounting adjustments of earlier periods that are recognized in the current period—cumulative effect of a change in accounting principle is the principal example from present practice. The Board expects the concept of earnings to be subject to the process of gradual change or evolution that has characterized the development of net income.

- Earnings is a measure of entity performance during a period. It measures the extent to which asset inflows (revenues and gains) associated with cash-to-cash cycles substantially completed during the period exceed asset outflows (expenses and losses) associated, directly or indirectly, with the same cycles.

- Comprehensive income is a broad measure of the effects of transactions and other events on an entity, comprising all recognized changes in equity (net assets) of the entity during a period from transactions and other events and circumstances except those resulting from investments by owners and distributions to owners.

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- A variety of terms are used for net income in present practice. The Board anticipates that a variety of terms will be used in future financial statements as names for earnings (for example, net income, profit, or net loss) and for comprehensive income (for example, total nonowner changes in equity or comprehensive loss).

- Earnings and comprehensive income are not the same because certain gains and losses are included in comprehensive income but are excluded from earnings. Those items fall into two classes that are illustrated by certain present practices:

  - Effects of certain accounting adjustments of earlier periods that are recognized in the current period (already described)

  - Certain other changes in net assets (principally certain holding gains and losses) that are recognized in the period but are excluded from earnings, such as some changes in market values of investments in marketable equity securities classified as noncurrent assets, some changes in market values of investments in industries having specialized accounting practices for marketable securities, and foreign currency translation adjustments.

- The full set of financial statements discussed in this Statement is based on the concept of financial capital maintenance.

- Future standards may change what is recognized as components of earnings. Future standards may also recognize certain changes in net assets as components of comprehensive income but not of earnings.

- A statement of cash flows directly or indirectly reflects an entity's cash receipts classified by major sources and its cash payments classified by major uses during a period, including cash flow information about its operating, financing, and investing activities.

- A statement of investments by and distributions to owners reflects an entity's capital transactions during a period—the extent to which and in what ways the equity of the entity increased or decreased from transactions with owners *as owners*.

- An item and information about it should meet four fundamental recognition criteria to be recognized and should be recognized when the criteria are met, subject to a cost-benefit constraint and a materiality threshold. Those criteria are:

  - *Definitions.* The item meets the definition of an element of financial statements.

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  - *Measurability*. It has a relevant attribute measurable with sufficient reliability.

  - *Relevance*. The information about it is capable of making a difference in user decisions.

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  - *Reliability*. The information is representationally faithful, verifiable, and neutral.

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- Items currently reported in the financial statements are measured by different attributes (for example, historical cost, current [replacement] cost, current market value, net realizable value, and present value of future cash flows), depending on the nature of the item and the relevance and reliability of the attribute measured. The Board expects use of different attributes to continue.

- The monetary unit or measurement scale in current practice in financial statements is nominal units of money, that is, unadjusted for changes in purchasing power of money over time. The Board expects that nominal units of money will continue to be used to measure items recognized in financial statements.

- Further guidance in applying the criteria for recognizing components of earnings is necessary because of the widely acknowledged importance of earnings as a primary measure of entity performance. Guidance for recognizing components of earnings is concerned with identifying which cycles are substantially complete and with associating particular revenues, gains, expenses, and losses with those cycles.

- In assessing the prospect that as yet uncompleted transactions will be concluded successfully, a degree of skepticism is often warranted. As a reaction to uncertainty, more stringent requirements have historically been imposed for recognizing revenues and gains as components of earnings than for recognizing expenses and losses. Those conservative reactions influence the guidance for applying the recognition criteria to components of earnings.

- Guidance for recognizing revenues and gains is based on their being:

  - *Realized or realizable*. Revenues and gains are generally not recognized as components of earnings until realized or realizable and

  - *Earned*. Revenues are not recognized until earned. Revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. For gains, being earned is generally less significant than being realized or realizable.

- Guidance for expenses and losses is intended to recognize:

  - *Consumption of benefit*. Expenses are generally recognized when an entity's economic benefits are consumed in revenue-earning activities or otherwise or

  - *Loss or lack of benefit*. Expenses or losses are recognized if it becomes evident that previously recognized future economic benefits of assets have been reduced or eliminated, or that liabilities have been incurred or increased, without associated economic benefits.

- In a limited number of situations, the Board may determine that the most useful information results from recognizing the effects of certain events in comprehensive income but not in earnings, and set standards accordingly. Certain changes in net assets that meet the fundamental recognition criteria may qualify for recognition in comprehensive income even though they do not qualify for recognition as components of earnings.
- Information based on current prices should be recognized if it is sufficiently relevant and reliable to justify the costs involved and more relevant than alternative information.

- Most aspects of current practice are consistent with the recognition criteria and guidance in this Statement, but the criteria and guidance do not foreclose the possibility of future changes in practice. When evidence indicates that information that is more useful (relevant and reliable) than information currently reported is available at a justifiable cost, it should be included in financial statements.

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Statements of Financial Accounting Concepts

This Statement of Financial Accounting Concepts is one of a series of publications in the Board's conceptual framework for financial accounting and reporting. Statements in the series are intended to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties. Concepts of that type are fundamental in the sense that other concepts flow from them and repeated reference to them will be necessary in establishing, interpreting, and applying accounting and reporting standards.

The conceptual framework is a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and reporting. It is expected to serve the public interest by providing structure and direction to financial accounting and reporting to facilitate the provision of evenhanded financial and related information that helps promote the efficient allocation of scarce resources in the economy and society, including assisting capital and other markets to function efficiently.

Establishment of objectives and identification of fundamental concepts will not directly solve financial accounting and reporting problems. Rather, objectives give direction, and concepts are tools for solving problems.

The Board itself is likely to be the most direct beneficiary of the guidance provided by the Statements in this series. They will guide the Board in developing accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider merits of alternatives.

However, knowledge of the objectives and concepts the Board will use in developing standards also should enable those who are affected by or interested in financial accounting standards to understand better the purposes, content, and characteristics of information provided by financial accounting and reporting. That knowledge is expected to enhance the usefulness of, and confidence in, financial accounting and reporting. The concepts also may provide some guidance in analyzing new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements.

Statements of Financial Accounting Concepts do not establish standards prescribing accounting procedures or disclosure practices for particular items or events, which are issued by the Board as Statements of Financial Accounting Standards. Rather, Statements in this series describe concepts and relations that will underlie future financial accounting standards and practices and in due course serve as a basis for evaluating existing standards and practices.

The Board recognizes that in certain respects current generally accepted accounting principles may be inconsistent with those that may derive from the objectives and concepts set forth in Statements in this series. However, a Statement of Financial Accounting Concepts does not (a) require a change in existing generally accepted accounting principles; (b) amend, modify, or interpret Statements of Financial Accounting Standards, Interpretations of the FASB, Opinions of the Accounting Principles Board, or Bulletins of the Committee on Accounting Procedure that are in effect; or (c) justify either changing existing generally accepted accounting and reporting practices or interpreting the pronouncements listed in item (b) based on personal interpretations of the objectives and concepts in the Statements of Financial Accounting Concepts.

Since a Statement of Financial Accounting Concepts does not establish generally accepted accounting principles or standards for the disclosure of financial information outside of financial statements in published financial reports, it is not intended to invoke application of Rule 203 or 204 of the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants (of successor rules or arrangements of similar scope and intent).

Like other pronouncements of the Board, a Statement of Financial Accounting Concepts may be amended, superseded, or withdrawn by appropriate action under the Board's *Rules of Procedure*.

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INTRODUCTION, SCOPE, AND LIMITATIONS

1. This Statement sets forth fundamental recognition criteria and guidance on what information should be formally incorporated into financial statements and when. It builds on the foundation laid by earlier concepts Statements, bringing those concepts together to apply them to broad recognition issues. As a basis for considering recognition criteria, the Statement first addresses financial statements that should be presented and how those financial statements contribute to the objectives of financial reporting. Both that discussion and the later discussion of recognition give particular attention to statements of earnings and comprehensive income.

2. The recognition criteria and guidance in this Statement are generally consistent with current practice and do not imply radical change. Nor do they foreclose the possibility of future changes in practice. The Board intends future change to occur in the gradual, evolutionary way that has characterized past change.

3. This Statement also addresses certain measurement issues that are closely related to recognition. Measurement involves choice of an attribute by which to quantify a recognized item and choice of a scale of measurement (often called "unit of measure"). The Statement notes that different attributes are currently used to measure different items in financial statements and that the Board expects the use of different attributes to continue. The Statement further notes that the measurement scale in current practice is nominal units of money (that is, unadjusted for changes in purchasing power over time) and that the Board expects use of nominal units to continue.

4. This Statement is not intended to apply to organizations other than business enterprises. Recognition criteria and guidance on what information should be formally incorporated into financial statements of nonbusiness organizations can be considered only after completion of another Board project that concerns significant underlying concepts upon which recognition criteria and guidance are built. The Board issued its Exposure Draft, *Proposed Amendments to FASB Concepts Statements 2 and 3 to Apply Them to Nonbusiness Organizations*, on July 7, 1983 and held public hearings on that matter on November 14 and 15, 1983. Since that project is still in progress, all references in this Statement are to the original Statements, FASB Concepts Statements No. 2, *Qualitative Characteristics of Accounting Information*, and No. 3, *Elements of Financial Statements of Business Enterprises*.

FINANCIAL STATEMENTS

Financial Statements, Financial Reporting, and Recognition

5. Financial statements are a central feature of financial reporting—a principal means of communicating financial information to those outside an entity. In external general purpose financial reporting, a financial statement is a formal tabulation of names and amounts of money derived from accounting records that displays either financial position of an entity at a moment in time or one or more kinds of changes in financial position of the entity during a period of time. Items that are recognized in financial statements are financial representations of certain resources (assets) of an entity, claims to those resources (liabilities and owners' equity), and the effects of transactions and other events and circumstances that result in changes in those resources and claims. The financial statements of an entity are a fundamentally related set that articulate with each other and derive from the same underlying data.

6. Recognition is the process of formally recording or incorporating an item in the financial statements of an entity as an asset, liability, revenue, expense, or the like. Recognition includes depiction of an item in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements.

7. Although financial statements have essentially the same objectives as financial reporting, some useful information is better provided by financial statements and some is better provided, or can only be provided, by notes to financial statements or by supplementary information or other means of financial reporting:

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a. Information disclosed in notes or parenthetically on the face of financial statements, such as significant accounting policies or alternative measures for assets or liabilities, amplifies or explains information recognized in the financial statements. That sort of information is essential to understanding the information recognized in financial statements and has long been viewed as an integral part of financial statements prepared in accordance with generally accepted accounting principles.

b. Supplementary information, such as disclosures of the effects of changing prices, and other means of financial reporting, such as management discussion and analysis, add information to that in the financial statements or notes, including information that may be relevant but that does not meet all recognition criteria.

8. The scope of this concepts Statement is limited to recognition (and measurement) in financial statements. That limitation on scope does not alter the status of notes, supplementary information, or other means of financial reporting; those types of information remain important and useful for the reasons discussed in the preceding paragraph. To clarify the scope of this concepts Statement, the following diagram illustrates the types of information used in investment, credit, and similar decisions.

9. Since recognition means depiction of an item in both words and numbers, with the amount included in the totals of the financial statements, disclosure by other means is *not* recognition. Disclosure of information about the items in financial statements and their measures that may be provided by notes or parenthetically on the face of financial statements, by supplementary information, or by other means of financial reporting is not a substitute for recognition in financial statements for items that meet recognition criteria. Generally, the most useful information about assets, liabilities, revenues, expenses, and other items of financial statements and their measures (that with the best combination of relevance and reliability) should be recognized in the financial statements.

Financial Statements and Objectives of Financial Reporting

10. FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, describes the broad purposes of financial reporting, including financial statements. Financial reporting should provide:

> Information that is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions (paragraphs 34-36)
>
> Information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise because their prospects for receiving cash from investments in, loans to, or other participation in the enterprise depend significantly on its cash flow prospects (paragraphs 37-39)
>
> Information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources (paragraph 40).

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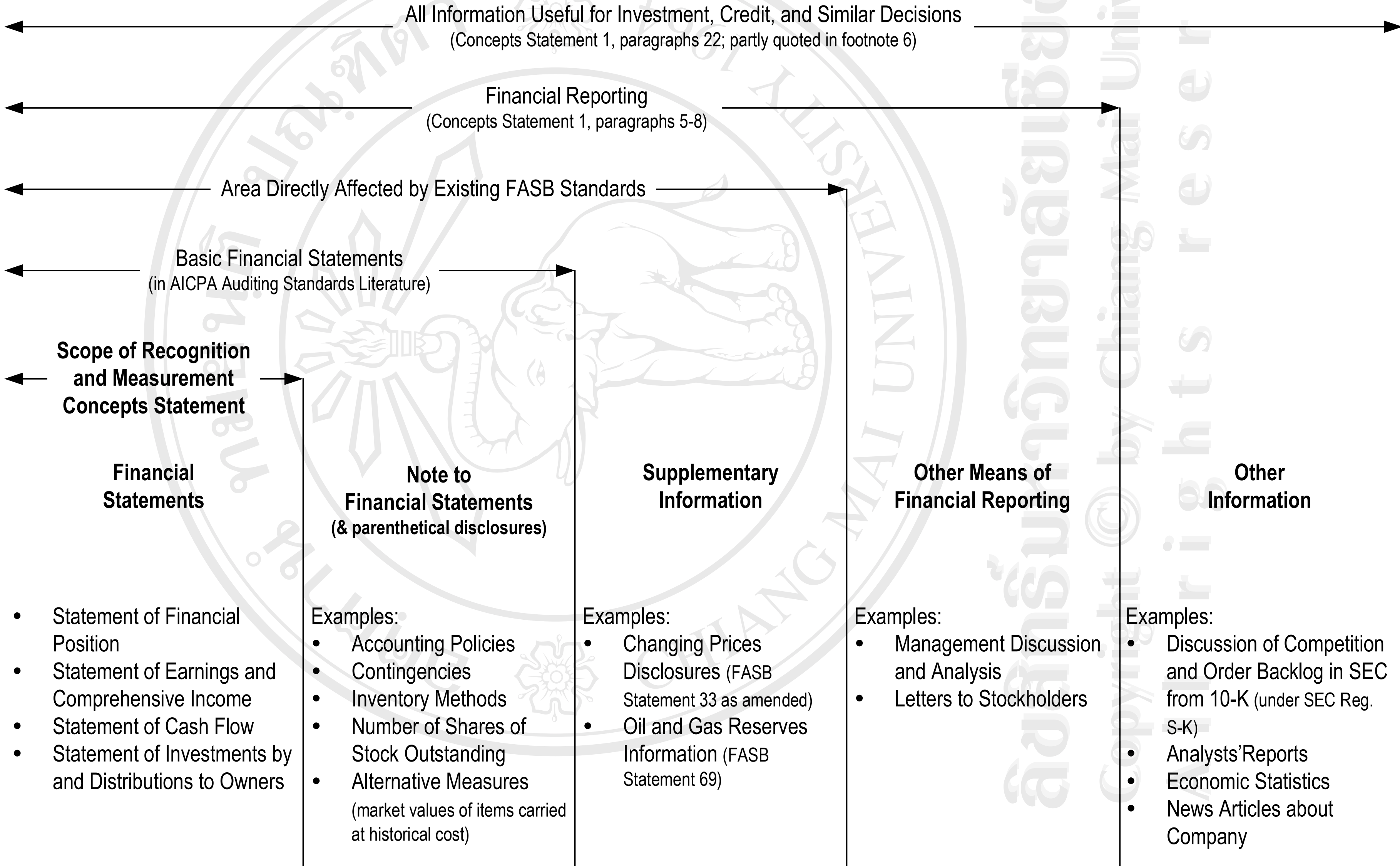

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11. Concepts Statement 1 also gives guidance about the kinds of information that financial reporting, including financial statements, should provide:

Information about an enterprise's economic resources, obligations, and owners' equity (paragraph 41)

Information about an enterprise's performance provided by measures of earnings and comprehensive income and their components measured by accrual accounting (paragraphs 42-48)

Information about how an enterprise obtains and spends cash, about its borrowing and repayment of borrowing, about its capital (equity) transactions, including cash dividends and other distributions of enterprise resources to owners, and about other factors that may affect an enterprise's liquidity or solvency (paragraph 49)

Information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it (paragraphs 50-53).

12. A full, articulated set of several financial statements that provide those various kinds of information about an entity's financial position and changes in its financial position is necessary to satisfy the broad purposes of financial reporting.

Full Set of Financial Statements

13. The amount and variety of information that financial reporting should provide about an entity require several financial statements. A full set of financial statements for a period should show:

Financial position at the end of the period

Earnings (net income) for the period

Comprehensive income (total nonowner changes in equity) for the period

Cash flows during the period

Investments by and distributions to owners during the period.

Information about earnings, comprehensive income, cash flows, and transactions with owners have in common that they are different kinds of information about the effects of transactions and other events and circumstances that change assets and liabilities during a period.

14. This Statement does not consider details of displaying those different kinds of information and does not preclude the possibility that some entities might choose to combine some of that information in a single statement. In present practice, for example, a reconciliation of beginning and ending balances of retained earnings is sometimes appended to an income statement.

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Purposes and Limitations of Financial Statements

General Purpose Financial Statements and Individual Users

15. General purpose financial statements, to which the objectives of financial reporting apply, are directed toward the common interest of various potential users in the ability of a business enterprise to generate favorable cash flows. General purpose financial statements are feasible only because groups of users of financial information have generally similar needs. But "general purpose" does not mean "all purpose," and financial statements do not necessarily satisfy all users equally well.

16. Each decision maker judges what accounting information is useful, and that judgment is influenced by factors such as the decisions to be made, the methods of decision making to be used, the information already possessed or obtainable from other sources, and the decision maker's capacity (alone or

with professional help) to process the information. Even users of financial statement information who make generally similar kinds of decisions differ from each other in those matters.

Usefulness of Financial Statements, Individually and Collectively

17. Financial statements of an entity individually and collectively contribute to meeting the objectives of financial reporting. Component parts of financial statements also contribute to meeting the objectives.

18. Each financial statement provides a different kind of information, and, with limited exceptions (paragraph 14), the various kinds of information cannot be combined into a smaller number of statements without unduly complicating the information. Moreover, the information each provides is used for various purposes, and particular users may be especially interested in the information in one of the statements. Paragraphs 26-57 of this Statement summarize how individual financial statements provide the information listed in paragraph 13.

19. The following two sections first describe how classification and aggregation, if done and used with care, enhance the decision usefulness of financial statements and how financial statements complement each other.

Classification and Aggregation in Financial Statements

20. Classification in financial statements facilitates analysis by grouping items with essentially similar characteristics and separating items with essentially different characteristics. Analysis aimed at objectives such as predicting amounts, timing, and uncertainty of future cash flows requires financial information segregated into reasonably homogeneous groups. For example, components of financial statements that consist of items that have similar characteristics in one or more respects, such as continuity or recurrence, stability, risk, and reliability, are likely to have more predictive value than if their characteristics are dissimilar.

21. Financial statements result from processing vast masses of data and involve needs to simplify, to condense, and to aggregate. Real things and events that affect a dynamic and complex business enterprise are represented in financial statements by words and numbers, which are necessarily highly simplified symbols of the real thing. Real transactions and other events are voluminous and are interpreted, combined, and condensed to be reflected in financial statements. Numerous items and components are aggregated into sums or totals. The resulting financial statements convey information that would be obscured from most users if great detail, such as descriptions of each transaction or event, were provided.

22. Although those simplifications, condensations, and aggregations are both necessary and useful, the Board believes it is important to avoid focusing attention almost exclusively on "the bottom line," earnings per share, or other highly simplified condensations. Summary data, such as the amounts of net assets, comprehensive income, earnings, or earnings per share, may be useful as general indicators of the amount of investment or overall past performance and are often used in efforts to compare an entity with many other entities. But, in a complex business enterprise, summary amounts include many heterogeneous things and events. Components of a financial statement often reflect more homogeneous classes of items than the whole statement. The individual items, subtotals, or other parts of a financial statement may often be more useful than the aggregate to those who make investment, credit, and similar decisions.

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Complementary Nature of Financial Statements

23. Financial statements interrelate (articulate) because they reflect different aspects of the same transactions or other events affecting an entity. Although each presents information different from the others, none is likely to serve only a single purpose or provide all the financial statement information that is useful for a particular kind of assessment or decision. Significant tools of financial analysis, such as rates of return and turnover ratios, depend on interrelationships between financial statements and their components.

24. Financial statements complement each other. For example:

a. Statements of financial position include information that is often used in assessing an entity's liquidity and financial flexibility, but a statement of financial position provides only an incomplete picture of either liquidity or financial flexibility unless it is used in conjunction with at least a cash flow statement.

b. Statements of earnings and comprehensive income generally reflect a great deal about the profitability of an entity during a period, but that information can be interpreted most meaningfully or compared with that of the entity for other periods or that of other entities only if it is used in conjunction with a statement of financial position, for example, by computing rates of return on assets or equity.

c. Statements of cash flows commonly show a great deal about an entity's current cash receipts and payments, but a cash flow statement provides an incomplete basis for assessing prospects for future cash flows because it cannot show interperiod relationships. Many current cash receipts, especially from operations, stem from activities of earlier periods, and many current cash payments are intended or expected to result in future, not current, cash receipts. Statements of earnings and comprehensive income, especially if used in conjunction with statements of financial position, usually provide a better basis for assessing future cash flow prospects of an entity than do cash flow statements alone.

d. Statements of investments by and distributions to owners provide information about significant sources of increases and decreases in assets, liabilities, and equity, but that information is of little practical value unless used in conjunction with other financial statements, for example, by comparing distributions to owners with earnings and comprehensive income or by comparing investments by and distributions to owners with borrowings and repayments of debt.

Individual Financial Statements

25. This discussion summarizes how individual financial statements provide the information listed in paragraph 13. It also introduces recognition considerations, which are the subject of the sections following.

Statement of Financial Position

26. A statement of financial position provides information about an entity's assets, liabilities, and equity and their relationships to each other at a moment in time. The statement delineates the entity's resource structure—major classes and amounts of assets—and its financing structure—major classes and amounts of liabilities and equity.

27. A statement of financial position does not purport to show the value of a business enterprise but, together with other financial statements and other information, should provide information that is useful to those who desire to make their own estimates of the enterprise's value. As a result of limitations stemming from uncertainty and cost-benefit considerations, not all assets and not all liabilities are included in a statement of financial position, and some assets and liabilities that are included are affected by events, such as price changes or accretion, that are not recognized. Statements of financial position also commonly use different attributes to measure different assets and liabilities.

28. Uncertainty and related limitations of financial accounting put the burden of estimating values of business enterprises and of investments in them on investors, creditors, and others. Information about components of earnings and comprehensive income often plays a significant part in that analysis. For example, investors may use that information to help estimate "earning power," or other amounts that they perceive as representative of long-term earning ability of an enterprise, as a significant step in comparing the market price of an equity security with its "intrinsic value." Those estimates and analyses are part of financial analysis, not financial reporting, but financial accounting facilitates financial analysis by, among other things, classifying financial statement information in homogeneous groups.

29. Important uses of information about an entity's financial position include helping users to assess factors such as the entity's liquidity, financial flexibility, profitability, and risk. Comparisons among entities and computations of rates of return are enhanced to the extent that significant asset and liability groupings are homogeneous in general characteristics and measurement.

Statements of Earnings and Comprehensive Income

30. Statements of earnings and comprehensive income together reflect the extent to which and the ways in which the equity of an entity increased or decreased from all sources other than transactions with owners during a period. Investors, creditors, managers, and others need information about the

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causes of changes in an entity's assets and liabilities—including results of its ongoing major or central operations, results of its incidental or peripheral transactions, and effects of other events and circumstances stemming from the environment that are often partly or wholly beyond the control of the entity and its management.

31. Effects of an entity's various activities, transactions, and events differ in stability, risk, and predictability, indicating a need for information about various components of earnings and comprehensive income. That need underlies the distinctions between revenues and gains, between expenses and losses, between various kinds of gains and losses, and between measures found in present practice such as income from continuing operations and net income.

32. Since the parts of a financial statement may be more useful to decision makers than the whole (paragraphs 20-22), this Statement emphasizes usefulness of components, interrelationships, and different perspectives as well as usefulness, collectively and individually, of financial statements.

Earnings

33. The concept of earnings described in this Statement is similar to net income in present practice. It includes almost all of what is in present net income for a period, and a statement of earnings based on it will be much like a present income statement. Present practice accepts a variety of terms for net income, and the Board anticipates that net income, profit, net loss, and other equivalent terms will continue to be used in financial statements as names for earnings. However, earnings is not exactly the same as present net income, and this Statement uses the term *earnings* in part to distinguish the concept described here from present net income.

34. Earnings does not include the cumulative effect of certain accounting adjustments of earlier periods that are recognized in the current period. The principal example that is included in present net income but excluded from earnings is the cumulative effect of a change in accounting principle, but others may be identified in the future. Earnings is a measure of performance for a period and to the extent feasible excludes items that are extraneous to that period—items that belong primarily to other periods. The following condensed statements show the similarities and major existing difference between earnings and present net income.

	Present Net Income		**Earnings**	
Revenues		100		100
Expenses		80		80
Gain from unusual source		(3)		(3)
Income from continuing operations		23		23
Loss on discontinued operations				
Income from operating discontinued segment	10		10	
Loss on disposal of discontinued segment	12	2	12	2
Income before extraordinary items				21
and effect of a change in accounting principle		21		
Extraordinary loss	6			6
Cumulative effect on prior years of a				
Change in accounting principle	2	8		
Earnings				15
Net Income		13		

35. The Board expects the concept of earnings to be subject to the process of gradual change or evolution that has characterized the development of net income. Present practice has developed over a long time, and that evolution has resulted in significant changes in what net income reflects, such as a shift toward what is commonly called an "all-inclusive" income statement. Those changes have resulted primarily from standard-setting bodies' responses to several factors, such as changes in the business and economic environment and perceptions about the nature and limitations of financial statements,

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about the needs of users of financial statements, and about the need to prevent or cure perceived abuse(s) in financial reporting. Those factors sometimes may conflict or appear to conflict. For example, an all-inclusive income statement is intended, among other things, to avoid discretionary omissions of losses (or gains) from an income statement, thereby avoiding presentation of a more (or less) favorable report of performance or stewardship than is justified. However, because income statements also are used as a basis for estimating future performance and assessing future cash flow prospects, arguments have been advanced urging exclusion of unusual or nonrecurring gains and losses that might reduce the usefulness of an income statement for any one year for predictive purposes.

36. Earnings is a measure of performance during a period that is concerned primarily with the extent to which asset inflows associated with cash-to-cash cycles substantially completed (or completed) during the period exceed (or are less than) asset outflows associated, directly or indirectly, with the same cycles. Both an entity's ongoing major or central activities and its incidental or peripheral transactions involve a number of overlapping cash-to-cash cycles of different lengths. At any time, a significant proportion of those cycles is normally incomplete, and prospects for their successful completion and amounts of related revenues, expenses, gains, and losses vary in degree of uncertainty. Estimating those uncertain results of incomplete cycles is costly and involves risks, but the benefits of timely financial reporting based on sales or other more relevant events, rather than on cash receipts or other less relevant events, outweigh those costs and risks.

37. Final results of incomplete cycles usually can be reliably measured at some point of substantial completion (for example, at the time of sale, usually meaning delivery) or sometimes earlier in the cycle (for example, as work proceeds on certain long-term, construction-type contracts), so it is usually not necessary to delay recognition until the point of full completion (for example, until after receivables have been collected and warranty obligations have been satisfied). Guidance for applying recognition criteria to components of earnings (paragraphs 78-87) helps define earnings by aiding in making those determinations.

38. Earnings focuses on what the entity has received or reasonably expects to receive for its output (revenues) and what it sacrifices to produce and distribute that output (expenses). Earnings also includes results of the entity's incidental or peripheral transactions and some effects of other events and circumstances stemming from the environment (gains and losses).

Comprehensive Income

39. Comprehensive income is a broad measure of the effects of transactions and other events on an entity, comprising all recognized changes in equity (net assets) of the entity during a period from transactions and other events and circumstances except those resulting from investments by owners and distributions to owners.

40. Just as a variety of terms are used for net income in present practice, the Board anticipates that total nonowner changes in equity, comprehensive loss, and other equivalent terms will be used in future financial statements as names for comprehensive income.

41. Components of comprehensive income other than those that are included in earnings present no recognition problems in addition to those involved in recognizing assets and liabilities, for which fundamental criteria are described later (paragraphs 58-77).

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Relationships between Earnings and Comprehensive Income

42. Earnings and comprehensive income have the same broad components—revenues, expenses, gains, and losses—but are not the same because certain classes of gains and losses are included in comprehensive income but are excluded from earnings. Those items fall into two classes that are illustrated by certain present practices:

a. Effects of certain accounting adjustments of earlier periods that are recognized in the period, such as the principal example in present practice, cumulative effects of changes in accounting principles, which are included in present net income but are excluded from earnings as set forth in this Statement (paragraphs 33 and 34)

b. Certain other changes in net assets (principally certain holding gains and losses) that are recognized in the period, such as some changes in market values of investments in marketable equity securities classified as noncurrent assets, some changes in market values of investments in industries having specialized accounting practices for marketable securities, and foreign currency translation adjustments.

Both classes and the items they comprise are subject to evolutionary change (paragraph 35).

43. Differences between earnings and comprehensive income require some distinguishing terms. The items in both classes described in paragraph 42 are gains and losses under the definitions in Concepts Statement 3 (paragraphs 67-73), but to refer to *some* gains and losses that are included in earnings and *other* gains and losses that are included in comprehensive income but are excluded from earnings is not only clumsy but also likely to be confusing. This Statement therefore uses *gains* and *losses* for those included in earnings and uses *cumulative accounting adjustments* and *other nonowner changes in equity* for those excluded from earnings but included in comprehensive income.

44. The relationships between earnings and comprehensive income described in the foregoing paragraphs mean that statements of earnings and comprehensive income complement each other something like this:

+ Revenues	100	+ Earnings	15
– Expenses 80	80	– Cumulative accounting adjustments	2
+ Gains 3	3		
– Losses	8	+ Other nonowner changes in equity	1
= Earnings	15	= Comprehensive income	14

Financial Capital Maintenance

45. The full set of articulated financial statements discussed in this Statement is based on the concept of financial capital maintenance.

46. An enterprise receives a return only after its capital has been maintained or recovered. The concept of capital maintenance, therefore, is critical in distinguishing an enterprise's return *on* investment from return *of* its investment. Both investors and the enterprises in which they acquire an interest invest financial resources with the expectation that the investment will generate more financial resources than they invested.

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47. A return on financial capital results only if the financial (money) amount of an enterprise's net assets at the end of a period exceeds the financial amount of net assets at the beginning of the period after excluding the effects of transactions with owners. The financial capital concept is the traditional view and is the capital maintenance concept in present financial statements. In contrast, a return on physical capital results only if the physical productive capacity of the enterprise at the end of the period (or the resources needed to achieve that capacity) exceeds the physical productive capacity at the beginning of the period, also after excluding the effects of transactions with owners. The physical capital maintenance concept can be implemented only if inventories and property, plant, and equipment (and perhaps other assets) are measured by their current costs, while the financial capital maintenance concept does not require measurement by a particular attribute.

48. The principal difference between the two capital maintenance concepts involves the effects of price changes during a period on assets while held and liabilities while owed. Under the financial capital concept, if the effects of those price changes are recognized, they are conceptually holding gains and losses (though they are commonly reported under other names and are included in the return on capital. Under the physical capital concept, those changes would be recognized but conceptually would be capital maintenance adjustments that would be included directly in equity and not included in return on capital. Both earnings and comprehensive income as set forth in this Statement, like present net income, include holding gains and losses that would be excluded from income under a physical capital maintenance concept.

Recognition Implications of Earnings

49. Although recognition involves considerations of relevance and comparability, recognition criteria, conventions, and rules are primarily intended to increase reliability—they are means of coping with the uncertainty that surrounds business and economic activities. Uncertainty in business and economic affairs is a continuum, ranging from mere lack of absolute sureness to a degree of vagueness that precludes anything other than guesswork. Since uncertainty surrounds an entity's incomplete cash-to-cash cycles in varying degrees, measuring progress reliably involves determining whether uncertainty about future cash flows has been reduced to an acceptable level.

50. In response to uncertainty, there has been a general tendency to emphasize purchase and sale transactions and to apply conservative procedures in accounting recognition. Perceptions about characteristics such as realizability and volatility may also help to explain why some events are recognized in present practice while others are not. For example, revenues are sometimes recognized before sale if readily realizable (if sale is a more-or-less effortless or perfunctory activity, and uncertainty about amounts involved is reduced to an acceptable level by quoted prices for interchangeable units in active markets or other reliable measures.) Those characteristics may also help to explain certain special recognition rules. For example, so-called translation adjustments from translating foreign currency financial statements are excluded from net income but are reported separately in comprehensive income (paragraphs 39 and 42) because they are considered not only unrealized but also unrealizable short of sale or liquidation of the investment in the entity. Effects of exchange rate changes on the net investment are considered too uncertain and remote to be included in operating results. Similarly, a reason commonly given for the same treatment for certain changes in market values of investments in marketable equity securities is that they may be temporary, and temporary fluctuations in market values of long-term investments should not be included in net income.

51. Since earnings in this Statement is similar to net income for a period in present practice, criteria and guidance given in the Statement for recognizing components of earnings (paragraphs 58-87) are generally similar to revenue and expense recognition criteria or rules in present practice. Future standards may change what is recognized as components of earnings (paragraph 35). Moreover, because of the differences between earnings and comprehensive income, future standards also may recognize certain changes in net assets as components of comprehensive income but not as components of earnings.

Statement of Cash Flows

52. A statement of cash flows directly or indirectly reflects an entity's cash receipts classified by major sources and its cash payments classified by major uses during a period. It provides useful information about an entity's activities in generating cash through operations to repay debt, distribute dividends, or reinvest to maintain or expand operating capacity; about its financing activities, both debt and equity; and about its investing or spending of cash. Important uses of information about an entity's current cash receipts and payments include helping to assess factors such as the entity's liquidity, financial flexibility, profitability, and risk.

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53. Since neither earnings nor comprehensive income measured by accrual accounting is the same as cash flow from operations, cash flow statements provide significant information about amounts, causes, and intervals of time between earnings and comprehensive income and cash receipts and outlays. Users commonly consider that information in assessing the relationship between earnings or comprehensive income and associated cash flows.

54. Statements of cash flows present few recognition problems because all cash receipts and payments are recognized when they occur. Reporting cash flows involves no estimates or allocations and few judgments except regarding classification in cash flow statements.

Statement of Investments by and Distributions to Owners

55. A statement of investments by and distributions to owners reflects the extent to which and in what ways the equity of an entity increased or decreased from transactions with owners as owners during a period. That is, it reflects the capital transactions of the entity, in contrast to its income transactions—those with nonowners—which are reflected in statements of earnings and comprehensive income. Statements of comprehensive income and statements of transactions with owners together include all changes in equity (net assets) recognized during a period.

56. Investments by owners establish or increase ownership interests in the entity and may be received in the form of cash, goods or services, or satisfaction or conversion of the entity's liabilities. Distributions decrease ownership interests and include not only cash dividends when declared (or other cash withdrawals by owners of noncorporate entities) but also transactions such as reacquisitions of the entity's equity securities and distributions "in kind" of noncash assets. Information about those events is useful, in conjunction with other financial statement information, to investors, creditors, and other users as an aid in assessing factors such as the entity's financial flexibility, profitability, and risk.

57. Transactions with owners are now normally recognized when they occur. Recognition problems concerning them can be difficult; for example, problems sometimes arise in distinguishing transactions with owners from transactions with certain creditors, and investments and dividends in kind may present measurement problems. However, the recognition implications of earnings that lead to special guidance do not apply to transactions with owners, and that sort of special guidance is not needed for them.

RECOGNITION CRITERIA

58. As noted in paragraphs 6-9, recognition is the process of formally recording or incorporating an item in the financial statements of an entity as an asset, liability, revenue, expense, or the like. A recognized item is depicted in both words and numbers, with the amount included in the statement totals. Recognition comprehends both initial recognition of an item and recognition of subsequent changes in or removal of a previously recognized item.

Purposes of Criteria

59. Criteria are set forth in this Statement to provide direction for resolving issues that involve accounting recognition. An entity's assets and liabilities and the effects of events on them and on its equity are candidates for recognition in its financial statements.

60. Some events that affect assets, liabilities, or equity are not recognized in financial statements at the time they occur. Some events that result in future benefits, for example, creation of product awareness by advertising and promotion, may perhaps never be recognized as separate assets. Other events, for example, a disaster loss of unknown dimension, are recognized only when sufficient information about the effects of the event has become available at a justifiable cost to reduce uncertainty to an acceptable level. Recognition criteria aid in making those determinations.

Structure of Recognition Criteria

61. The recognition criteria in this Statement are derived from the qualitative characteristics of financial information in Concepts Statement 2 and are helpful in making the definitions of elements of financial statements in Concepts Statement 3 operational in resolving financial reporting issues.

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62. The fundamental criteria apply to all recognition decisions. Further guidance is provided in paragraphs 78-87 for applying the fundamental criteria to components of earnings.

Fundamental Recognition Criteria

63. An item and information about it should meet four fundamental recognition criteria to be recognized and should be recognized when the criteria are met, subject to a cost-benefit constraint and a materiality threshold. Those criteria are:

Definitions—The item meets the definition of an element of financial statements.

Measurability—It has a relevant attribute measurable with sufficient reliability.

Relevance—The information about it is capable of making a difference in user decisions.

Reliability—The information is representationally faithful, verifiable, and neutral.

All four criteria are subject to a pervasive cost-benefit constraint: the expected benefits from recognizing a particular item should justify perceived costs of providing and using the information. Recognition is also subject to a materiality threshold: an item and information about it need not be recognized in a set of financial statements if the item is not large enough to be material and the aggregate of individually immaterial items is not large enough to be material to those financial statements.

Definitions

64. The definitions are those in FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*. To be recognized in financial statements, a resource must meet the definition of an asset, and an obligation must meet the definition of a liability. A change in equity must meet the definition of a revenue, expense, gain, or loss to be recognized as a component of comprehensive income.

Measurability

65. The asset, liability, or change in equity must have a relevant attribute that can be quantified in monetary units with sufficient reliability. Measurability must be considered together with both relevance and reliability.

Measurement Attributes

66. Items currently reported in financial statements are measured by different attributes, depending on the nature of the item and the relevance and reliability of the attribute measured. The Board expects the use of different attributes to continue.

67. Five different attributes of assets (and liabilities) are used in present practice:

a. *Historical cost (historical proceeds)*. Property, plant, and equipment and most inventories are reported at their historical cost, which is the amount of cash, or its equivalent, paid to acquire an asset, commonly adjusted after acquisition for amortization or other allocations. Liabilities that involve obligations to provide goods or services to customers are generally reported at historical proceeds, which is the amount of cash, or its equivalent, received when the obligation was incurred and may be adjusted after acquisition for amortization or other allocations.

b. *Current cost*. Some inventories are reported at their current replacement cost, which is the amount of cash, or its equivalent, that would have to be paid if the same or an equivalent asset were acquired currently.

c. *Current market value*. Some investments in marketable securities are reported at their current market value, which is the amount of cash, or its equivalent, that could be obtained by selling an asset in orderly liquidation. Current market value is also generally used for assets expected to be sold at prices lower than previous carrying amounts. Some liabilities that involve marketable commodities and securities, for example, the obligations of writers of options or sellers of common shares who do not own the underlying commodities or securities, are reported at current market value.

d. *Net realizable (settlement) value*. Short-term receivables and some inventories are reported at their net realizable value, which is the nondiscounted amount of cash, or its equivalent, into which an asset is expected to be converted in due course of business less direct costs, if any, necessary to make that conversion. Liabilities that involve known or estimated amounts of money payable at unknown future dates, for example, trade payables or warranty obligations, generally are reported at their net settlement value, which is the nondiscounted amounts of cash, or its equivalent, expected to be paid to liquidate an obligation in the due course of business, including direct costs, if any, necessary to make that payment.

e. *Present (or discounted) value of future cash flows*. Long-term receivables are reported at their present value (discounted at the implicit or historical rate), which is the present or discounted value of future cash inflows into which an asset is expected to be converted in due course of business less present values of cash outflows necessary to obtain those inflows. Long-term payables are similarly reported at their present value (discounted at the implicit or historical rate), which is the present or discounted value of future cash outflows expected to be required to satisfy the liability in due course of business.

68. The different attributes often have the same amounts, particularly at initial recognition. As a result, there may be agreement about the appropriate amount for an item but disagreement about the attribute being used. Present financial statements frequently are characterized as being based on the

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historical cost (historical proceeds) attribute. That no doubt reflects the fact that, for most enterprises, a great many of the individual events recognized in financial statements are acquisitions of goods or services for cash or equivalent that are recorded at historical cost. Although the "historical cost system" description may be convenient and describes well present practice for some major classes of assets (most inventories, property, plant, and equipment, and intangibles), it describes less well present practice for a number of other classes of assets and liabilities—for example, trade receivables, notes payable, and warranty obligations.

69. "Historical exchange price" is more descriptive of the quantity most generally reflected in financial statements in present practice (and "transaction-based system" would be a better description of the present accounting model than "historical cost system"). Amounts initially recorded for trade receivables and long-term notes payable, for example, generally fit the historical exchange price description. But some assets are acquired, and some liabilities are incurred, without exchanges—for example, assets found or received as contributions and income tax or litigation liabilities. There is no historical exchange price in those situations, and some other attribute must be used. Moreover, carrying amounts of assets (liabilities) are frequently reduced (increased) from historical exchange price to a lower (higher) current cost, current market value, or net realizable value, even though no subsequent exchange of the assets held or liabilities owed has occurred. And some assets are carried at current market value, independent of historical exchange price.

70. Rather than attempt to characterize present practice as being based on a single attribute with numerous major exceptions for diverse reasons, this concepts Statement characterizes present practice as based on different attributes. Rather than attempt to select a single attribute and force changes in practice so that all classes of assets and liabilities use that attribute, this concepts Statement suggests that use of different attributes will continue, and discusses how the Board may select the appropriate attribute in particular cases.

Monetary Unit or Measurement Scale

71. The monetary unit or measurement scale in financial statements in current practice is nominal units of money, that is, unadjusted for changes in purchasing power of money over time. An ideal measurement scale would be one that is stable over time. At low rates of change in general purchasing power (inflation or deflation), nominal units of money are relatively stable. Also, preparation and use of financial statements is simpler with nominal units than with other units of measure, such as units of constant general purchasing power (used, for example, in supplementary disclosures of the effects of changing prices), artificial monetary units (for example, the European Currency Unit or ECU), or units of a commodity (for example, ounces of gold). However, as rates of change in general purchasing power increase, financial statements expressed in nominal units of money become progressively less useful and less comparable.

72. The Board expects that nominal units of money will continue to be used to measure items recognized in financial statements. However, a change from present circumstances (for example, an increase in inflation to a level at which distortions became intolerable) might lead the Board to select another, more stable measurement scale.

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Relevance

73. Relevance is a primary qualitative characteristic. To be relevant, information about an item must have feedback value or predictive value (or both) for users and must be timely. Information is relevant if it has the capacity to make a difference in investors', creditors', or other users' decisions. To be recognized, the information conveyed by including an asset, liability, or change therein in the financial statements must be relevant.

74. The relevance of particular information about an item being considered for recognition cannot be determined in isolation. Relevance should be evaluated in the context of the principal objective of financial reporting: providing information that is useful in making rational investment, credit, and similar decisions. Relevance should also be evaluated in the context of the full set of financial statements—with consideration of how recognition of a particular item contributes to the aggregate decision usefulness.

Reliability

75. Reliability is the other primary qualitative characteristic. To be reliable, information about an item must be representationally faithful, verifiable, and neutral. To be reliable, information must be sufficiently faithful in its representation of the underlying resource, obligation, or effect of events and sufficiently

free of error and bias to be useful to investors, creditors, and others in making decisions. To be recognized, information about the existence and amount of an asset, liability, or change therein must be reliable.

76. Reliability may affect the timing of recognition. The first available information about an event that may have resulted in an asset, liability, or change therein is sometimes too uncertain to be recognized: it may not yet be clear whether the effects of the event meet one or more of the definitions or whether they are measurable, and the cost of resolving those uncertainties may be excessive. Information about some items that meet a definition may never become sufficiently reliable at a justifiable cost to recognize the item. For other items, those uncertainties are reduced as time passes, and reliability is increased as additional information becomes available.

77. Unavailability or unreliability of information may delay recognition of an item, but waiting for virtually complete reliability or minimum cost may make the information so untimely that it loses its relevance. At some intermediate point, uncertainty may be reduced at a justifiable cost to a level tolerable in view of the perceived relevance of the information. If other criteria are also met, that is the appropriate point for recognition. Thus, recognition may sometimes involve a trade-off between relevance and reliability.

GUIDANCE IN APPLYING CRITERIA TO COMPONENTS OF EARNINGS

78. This section discusses the need for and provides further guidance in applying the fundamental criteria in recognizing components of earnings. Changes in net assets are recognized as components of earnings if they qualify under the guidance in paragraphs 83-87. Certain changes in net assets (discussed in paragraphs 42-44 and 49-51) that meet the four fundamental recognition criteria just described may qualify for recognition in comprehensive income even though they do not qualify for recognition as components of earnings based on that guidance.

79. Further guidance in applying the recognition criteria to components of earnings is necessary because of the widely acknowledged importance of information about earnings and its components as a primary measure of performance for a period. The performance measured is that of the entity, not necessarily that of its management, and includes the recognized effects upon the entity of events and circumstances both within and beyond the control of the entity and its management. The widely acknowledged importance of earnings information leads to guidance intended in part to provide more stringent requirements for recognizing components of earnings than for recognizing other changes in assets or liabilities.

80. As noted in paragraph 36, earnings measures the extent to which asset inflows (revenues and gains) associated with substantially completed cash-to-cash cycles exceed asset outflows (expenses and losses) associated, directly or indirectly, with the same cycles. Guidance for recognizing components of earnings is concerned with identifying which cycles are substantially complete and with associating particular revenues, gains, expenses, and losses with those cycles.

81. In assessing the prospect that as yet uncompleted transactions will be concluded successfully, a degree of skepticism is often warranted. Moreover, as a reaction to uncertainty, more stringent requirements historically have been imposed for recognizing revenues and gains than for recognizing expenses and losses, and those conservative reactions influence the guidance for applying the recognition criteria to components of earnings.

82. The guidance stated here is intended to summarize key considerations in a form useful for guidance for future standard setting—guidance which also is consistent with the vast bulk of current practice. The following paragraphs provide guidance separately for recognition of revenues and gains and for expenses and losses as components of earnings.

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Revenues and Gains

83. Further guidance for recognition of revenues and gains is intended to provide an acceptable level of assurance of the existence and amounts of revenues and gains before they are recognized. Revenues and gains of an enterprise during a period are generally measured by the exchange values of the assets (goods or services) or liabilities involved, and recognition involves consideration of two factors (a) being realized or realizable and (b) being earned, with sometimes one and sometimes the other being the more important consideration.

a. *Realized or realizable*. Revenues and gains generally are not recognized until realized or realizable. Revenues and gains are realized when products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash. Revenues and gains are realizable when related assets

received or held are readily convertible to known amounts of cash or claims to cash. Readily convertible assets have (i) interchangeable (fungible) units and (ii) quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price.

b. *Earned*. Revenues are not recognized until earned. An entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. Gains commonly result from transactions and other events that involve no "earning process," and for recognizing gains, being earned is generally less significant than being realized or realizable.

84. In recognizing revenues and gains:

a. The two conditions (being realized or realizable and being earned) are usually met by the time product or merchandise is delivered or services are rendered to customers, and revenues from manufacturing and selling activities and gains and losses from sales of other assets are commonly recognized at time of sale (usually meaning delivery).
b. If sale or cash receipt (or both) precedes production and delivery (for example, magazine subscriptions), revenues may be recognized as earned by production and delivery.
c. If product is contracted for before production, revenues may be recognized by a percentage-of-completion method as earned—as production takes place—provided reasonable estimates of results at completion and reliable measures of progress are available.
d. If services are rendered or rights to use assets extend continuously over time (for example, interest or rent), reliable measures based on contractual prices established in advance are commonly available, and revenues may be recognized as earned as time passes.
e. If products or other assets are readily realizable because they are salable at reliably determinable prices without significant effort (for example, certain agricultural products, precious metals, and marketable securities), revenues and some gains or losses may be recognized at completion of production or when prices of the assets change. Paragraph 83(a) describes readily realizable (convertible) assets.
f. If product, services, or other assets are exchanged for nonmonetary assets that are not readily convertible into cash, revenues or gains or losses may be recognized on the basis that they have been earned and the transaction is completed. Gains or losses may also be recognized if nonmonetary assets are received or distributed in nonreciprocal transactions. Recognition in both kinds of transactions depends on the provision that the fair values involved can be determined within reasonable limits.
g. If collectibility of assets received for product, services, or other assets is doubtful, revenues and gains may be recognized on the basis of cash received.

Expenses and Losses

85. Further guidance for recognition of expenses and losses is intended to recognize consumption (using up) of economic benefits or occurrence or discovery of loss of future economic benefits during a period. Expenses and losses are generally recognized when an entity's economic benefits are used up in delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations or when previously recognized assets are expected to provide reduced or no further benefits.

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Consumption of Benefits

86. Consumption of economic benefits during a period may be recognized either directly or by relating it to revenues recognized during the period:

a. Some expenses, such as cost of goods sold, are matched with revenues—they are recognized upon recognition of revenues that result directly and jointly from the same transactions or other events as the expenses.
b. Many expenses, such as selling and administrative salaries, are recognized during the period in which cash is spent or liabilities are incurred for goods and services that are used up either simultaneously with acquisition or soon after.
c. Some expenses, such as depreciation and insurance, are allocated by systematic and rational procedures to the periods during which the related assets are expected to provide benefits.

Loss or Lack of Future Benefit

87. An expense or loss is recognized if it becomes evident that previously recognized future economic benefits of an asset have been reduced or eliminated, or that a liability has been incurred or increased, without associated economic benefits.

RECOGNITION OF CHANGES IN ASSETS AND LIABILITIES

88. Initial recognition of assets acquired and liabilities incurred generally involves measurement based on current exchange prices at the date of recognition. Once an asset or a liability is recognized, it continues to be measured at the amount initially recognized until an event that changes the asset or liability or its amount occurs and meets the recognition criteria.

89. Events that change assets and liabilities are of two types: (a) inflows (acquisitions of assets or incurrences of liabilities) and outflows (sale or other disposal or loss of assets and settlement or cancellation of liabilities) and (b) changes of amounts of assets while held or of liabilities while owed by the entity. The latter also are of two types: (i) changes in utility or substance and (ii) changes in price. Examples of changes in utility or substance that are recognized in current practice include use of assets in production, depreciation of assets used in administrative activities, and fire damage to assets.

90. Information based on current prices should be recognized if it is sufficiently relevant and reliable to justify the costs involved and more relevant than alternative information. The merits of recognizing changes in prices may be clear in certain cases, and, as already noted, some price changes are recognized in present practice. In other cases, the relative merits of information based on current prices and alternative information may be unclear or may be a matter of dispute. In considering the application of the fundamental recognition criteria, those relative merits must be evaluated in the light of the circumstances of each case.

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SUMMARY

91. Most aspects of current practice are consistent with the recognition criteria and guidance in this Statement, but the criteria and guidance do not foreclose the possibility of future changes in practice. This Statement is intended to provide guidance for orderly change in accounting standards when needed. When evidence indicates that information about an item that is more useful (relevant and reliable) than information currently reported is available at a justifiable cost, it should be included in financial statements.

This Statement was adopted by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. March dissented.

Mr. March dissents from this Statement because (a) it does not adopt measurement concepts oriented toward what he believes is the most useful single attribute for recognition purposes, the cash equivalent of recognized transactions reduced by subsequent impairments or loss of service value—instead it suggests selecting from several different attributes without providing sufficient guidance for the selection process; (b) it identifies all nonowner changes in assets and liabilities as comprehensive income and return on equity, thereby including in income, incorrectly in his view, capital inputs from nonowners, unrealized gains from price changes, amounts that should be deducted to maintain capital in real terms, and foreign currency translation adjustments; (c) it uses a concept of income that is fundamentally based on measurements of assets, liabilities, and changes in them, rather than adopting the Statement's concept of earnings as the definition of income; and (d) it fails to provide sufficient guidance for initial recognition and derecognition of assets and liabilities.

Mr. March would not, in general, recognize increases in prices of assets and decreases in prices of liabilities before they are realized. He believes present measurement practice can be characterized as largely using a single attribute, the cash equivalent of recognized transactions reduced by subsequent impairments or loss of service value, and that present practices that recognize revenues or gains from changes in prices before realization, such as the uses of current market values and net realizable values cited in paragraphs 67(c) and (d) and 69, are exceptions to the general use of that single attribute. Mr. March is concerned that the guidance in paragraph 90 would permit, and perhaps point toward, more recognition of changes in current prices before realization. He believes that income, recognition, and measurement concepts based largely on the single attribute that he proposes are most relevant to reporting capital committed, performance, and the investment and realization of resources.

Mr. March objects to comprehensive income, defined in Concepts Statement 3 and confirmed in this Statement, as a concept of income because it includes all recognized changes (including price changes) in assets and liabilities other than investments by owners and distributions to owners. He would exclude from income, and include in the amount of capital to be maintained (in addition to transactions with owners), what he would consider to be direct capital inputs to the enterprise from nonowner sources. Those include governmental and other capital contributions or grants and capital arising in reorganizations, recapitalizations, and extinguishments or restatements of debt capital.

Mr. March would also require that income must first deduct a provision for maintenance of capital in real terms (adjusted for changes in purchasing power of money over time, paragraphs 71-72). He believes that is necessary to avoid reporting a return of capital as income. Complex implementation should not be necessary to provide for the erosion of capital caused by the effects of inflation on the unit of measure. A "rubber yardstick" is a poor measuring tool. Mr. March would also exclude from income foreign currency translation adjustments (excluded from earnings but included in comprehensive income by paragraph 42(b), which he believes are analogous to provisions for maintenance of capital in real terms.

The description of earnings (paragraphs 33-38) and the guidance for applying recognition criteria to components of earnings (paragraphs 78-87) is consistent with Mr. March's view that income should measure performance and that performance flows primarily from an entity's fulfillment of the terms of its transactions with outside entities that result in revenues, other proceeds on resource dispositions (gains), costs (expenses) associated with those revenues and proceeds, and losses sustained. However, Mr. March believes that those concepts are fundamental and should be embodied in definitions of the elements of financial statements and in basic income recognition criteria rather than basing income on measurements of assets, liabilities, and changes in them.

Disregarding the foregoing objections, Mr. March believes this Statement offers insufficient guidance for the near-term future work of the Board. To be useful, it needs to be supplemented with more specific guidance for selecting measurement attributes for specific assets, liabilities, and transactions and for deciding when the criteria require recognition or derecognition of an asset or a liability.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman* Raymond C. Lauver David Mosso

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Frank E. Block John W. March Robert T. Sprouse

Victor H. Brown

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Statement of Financial Accounting Concepts No. 6

Elements of Financial Statements

a replacement of FASB Concepts Statement No. 3

(incorporating an amendment of FASB Concepts Statement No. 2)

CON6 Status

Issued: December 1985

Affects: Supersedes CON 2, paragraph 4 and footnote 2

Supersedes CON 3

Affected by: No other pronouncements

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Financial Accounting Standards Board

of the Financial Accounting Foundation

401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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CON 6 HIGHLIGHTS

[*Best understood in context of full Statement*]

- Elements of financial statements are the building blocks with which financial statements are constructed—the classes of items that financial statements comprise. The items in financial statements represent in words and numbers certain entity resources, claims to those resources, and the effects of transactions and other events and circumstances that result in changes in those resources and claims.

- This Statement replaces FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*, expanding its scope to encompass not-for-profit organizations as well.

- This Statement defines 10 interrelated elements that are directly related to measuring performance and status of an entity. (Other possible elements of financial statements are not addressed.)
  - Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.
  - Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.
  - Equity or net assets is the residual interest in the assets of an entity that remains after deducting its liabilities. In a business enterprise, the equity is the ownership interest. In a not-for-profit organization, which has no ownership interest in the same sense as a business enterprise, net assets is divided into three classes based on the presence or absence of donor-imposed restrictions—permanently restricted, temporarily restricted, and unrestricted net assets.
  - Investments by owners are increases in equity of a particular business enterprise resulting from transfers to it from other entities of something valuable to obtain or increase ownership interests (or equity) in it. Assets are most commonly received as investments by owners, but that which is received may also include services or satisfaction or conversion of liabilities of the enterprise.

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- Distributions to owners are decreases in equity of a particular business enterprise resulting from transferring assets, rendering services, or incurring liabilities by the enterprise to owners. Distributions to owners decrease ownership interest (or equity) in an enterprise.
- Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.
- Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.
- Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.
- Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.
- Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

• The Statement defines three classes of net assets of not-for-profit organizations and the changes in those classes during a period. Each class is composed of the revenues, expenses, gains, and losses that affect that class and of reclassifications from or to other classes.
  - Change in permanently restricted net assets during a period is the total of (a) contributions and other inflows during the period of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) other asset enhancements and diminishments during the period that are subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets during the period as a consequence of donor-imposed stipulations.
  - Change in temporarily restricted net assets during a period is the total of (a) contributions and other inflows during the period of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) other asset enhancements and diminishments during the period subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets during the period as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.
  - Change in unrestricted net assets during a period is the total change in net assets during the period less change in permanently restricted net assets and change in temporarily restricted net assets for the period. It is the change during the period in the part of net assets of a not-for-profit organization that is not limited by donor-imposed stipulations. Changes in unrestricted net assets include (a) revenues and gains that change unrestricted net assets, (b) expenses and losses that change unrestricted net assets, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

• The Statement also defines or describes certain other concepts that underlie or are otherwise closely related to the 10 elements and 3 classes defined in the Statement.

• Earnings is not defined in this Statement. FASB Concepts Statement 5 has now described earnings for a period as excluding certain cumulative accounting adjustments and other nonowner changes in equity that are included in comprehensive income for a period.

• The Board expects most assets and liabilities in present practice to continue to qualify as assets or liabilities under the definitions in this Statement. The Board emphasizes that the definitions neither require nor presage upheavals in present practice, although they may in due time lead to some evolutionary changes in practice or at least in the ways certain items are viewed. They should be especially helpful in understanding the content of financial statements and in analyzing and resolving new financial accounting issues as they arise.

• The appendixes are not part of the definitions but are intended for readers who may find them useful. They describe the background of the Statement and elaborate on the descriptions of the essential characteristics of the elements and classes, including some discussions and illustrations of how to apply the definitions.

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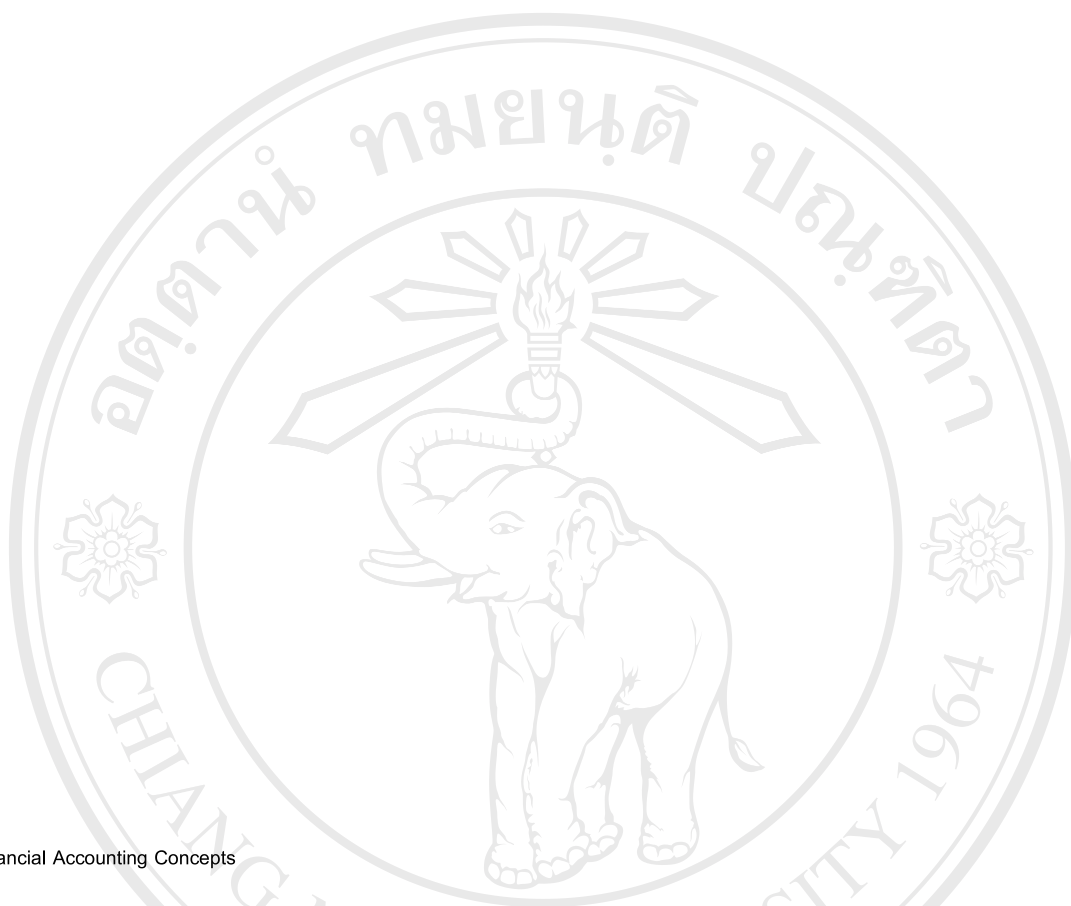
- This Statement amends FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, to apply it to financial reporting by not-for-profit organizations.



Statements of Financial Accounting Concepts

This Statement of Financial Accounting Concepts is one of a series of publications in the Board's conceptual framework for financial accounting and reporting. Statements in the series are intended to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties. Concepts of that type are fundamental in the sense that other concepts flow from them and repeated reference to them will be necessary in establishing, interpreting, and applying accounting and reporting standards.

The conceptual framework is a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and reporting. It is expected to serve the public interest by providing structure and direction to financial accounting and reporting to facilitate the provision of evenhanded financial and related information that helps promote the efficient allocation of scarce resources in the economy and society, including assisting capital and other markets to function efficiently.

Establishment of objectives and identification of fundamental concepts will not directly solve financial accounting and reporting problems. Rather, objectives give direction, and concepts are tools for solving problems.

The Board itself is likely to be the most direct beneficiary of the guidance provided by the Statements in this series. They will guide the Board in developing accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider merits of alternatives.

However, knowledge of the objectives and concepts the Board will use in developing standards also should enable those who are affected by or interested in financial accounting standards to understand better the purposes, content, and characteristics of information provided by financial accounting and reporting. That knowledge is expected to enhance the usefulness of, and confidence in, financial accounting and reporting. The concepts also may provide some guidance in analyzing new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements.

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Statements of Financial Accounting Concepts do not establish standards prescribing accounting procedures or disclosure practices for particular items or events, which are issued by the Board as Statements of Financial Accounting Standards. Rather, Statements in this series describe concepts and relations that will underlie future financial accounting standards and practices and in due course serve as a basis for evaluating existing standards and practices.

The Board recognizes that in certain respects current generally accepted accounting principles may be inconsistent with those that may derive from the objectives and concepts set forth in Statements in this series. However, a Statement of Financial Accounting Concepts does not (a) require a change in existing generally accepted accounting principles; (b) amend, modify, or interpret Statements of Financial Accounting Standards, Interpretations of the FASB, Opinions of the Accounting Principles Board, or Bulletins of the Committee on Accounting Procedure that are in effect; or (c) justify either changing existing generally accepted accounting and reporting practices or interpreting the pronouncements listed in item (b) based on personal interpretations of the objectives and concepts in the Statements of Financial Accounting Concepts.

Since a Statement of Financial Accounting Concepts does not establish generally accepted accounting principles or standards for the disclosure of financial information outside of financial statements in published financial reports, it is not intended to invoke application of Rule 203 or 204 of the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants (of successor rules or arrangements of similar scope and intent).

Like other pronouncements of the Board, a Statement of Financial Accounting Concepts may be amended, superseded, or withdrawn by appropriate action under the Board's *Rules of Procedure*

CHIANG MAI UNIVERSITY 1964

INTRODUCTION

Scope and Content of Statement

1. This Statement defines 10 elements of financial statements: 7 elements of financial statements of both business enterprises and not-for-profit organizations—assets, liabilities, equity (business enterprises) or net assets (not-for-profit organizations), revenues, expenses, gains, and losses—and 3 elements of financial statements of business enterprises only—investments by owners, distributions to owners, and comprehensive income. It also defines three classes of net assets of not-for-profit organizations and the changes in those classes during a period—change in permanently restricted net assets, change in temporarily restricted net assets, and change in unrestricted net assets. The Statement also defines or describes certain other concepts that underlie or are otherwise related to those elements and classes (See Summary Index).

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2. This Statement replaces FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*, extending that Statement's definitions to not-for-profit organizations. It confirms conclusions in paragraph 2 of Concepts Statement 3 that (a) assets and liabilities are common to all organizations and can be defined the same for business and not-for-profit organizations, (b) the definitions of equity (net assets), revenues, expenses, gains, and losses fit both business and not-for-profit organizations, and (c) not-for-profit organizations have no need for elements such as investments by owners, distributions to owners, and comprehensive income. Thus, this Statement continues unchanged the elements defined in Concepts Statement 3, although it contains added explanations stemming from characteristics of not-for-profit organizations and their operations. It also defines three classes of net assets of not-for-profit organizations, distinguished by the presence or absence of donor-imposed restrictions, and the changes in those classes during a period—change in permanently restricted, temporarily restricted, and unrestricted net assets.

Other Possible Elements of Financial Statements

3. Although the elements defined in this Statement include basic elements and are probably those most commonly identified as elements of financial statements, they are not the only elements of financial statements. The elements defined in this Statement are a related group with a particular focus—on

assets, liabilities, equity, and other elements directly related to measuring performance and status of an entity. Information about an entity's performance and status provided by accrual accounting is the primary focus of financial reporting (FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, paragraphs 40-48, and FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, paragraphs 38-53). Other statements or focuses may require other elements.

4. Variations of possible statements showing the effects on assets and liabilities of transactions or other events and circumstances during a period are almost limitless, and all of them have classes of items that may be called elements of financial statements. For example, a statement showing funds flows or cash flows during a period may include categories for funds or cash provided by (a) operations, (b) borrowing, (c) issuing equity securities, (d) sale of assets, and so forth. Other projects may define additional elements of financial statements as needed.

Elements and Financial Representations

5. Elements of financial statements are the building blocks with which financial statements are constructed—the classes of items that financial statements comprise. *Elements* refers to broad classes, such as assets, liabilities, revenues, and expenses. Particular economic things and events, such as cash on hand or selling merchandise, that may meet the definitions of elements are not elements as the term is used in this Statement. Rather, they are called *items* or other descriptive names. This Statement focuses on the broad classes and their characteristics instead of defining particular assets, liabilities, or other items. Although notes to financial statements are described in some authoritative pronouncements as an integral part of financial statements, they are not elements. They serve different functions, including amplifying or complementing information about items in financial statements.

6. The items that are formally incorporated in financial statements are financial representations (depictions in words and numbers) of certain resources of an entity, claims to those resources, and the effects of transactions and other events and circumstances that result in changes in those resources and claims. That is, symbols (words and numbers) in financial statements stand for cash in a bank, buildings, wages due, sales, use of labor, earthquake damage to property, and a host of other economic things and events pertaining to an entity existing and operating in what is sometimes called the "real world."

7. This Statement follows the common practice of calling by the same names both the financial representations in financial statements and the resources, claims, transactions, events, or circumstances that they represent. For example, *inventory* or *asset* may refer either to merchandise on the floor of a retail enterprise or to the words and numbers that represent that merchandise in the entity's financial statements; and *sale* or *revenue* may refer either to the transaction by which some of that merchandise is transferred to a customer or to the words and numbers that represent the transaction in the entity's financial statements.

Other Scope and Content Matters

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8. Appendix A of this Statement contains background information. Appendix B contains explanations and examples pertaining to the characteristics of elements of financial statements of business enterprises and not-for-profit organizations.

Objectives, Qualitative Characteristics, and Elements

9. The focus of the FASB concepts Statements that underlie this one is usefulness of financial reporting information in making economic decisions—reasoned choices among alternative uses of scarce resources. Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, emphasizes usefulness to present and potential investors, creditors, and others in making rational investment, credit, and similar decisions. Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, emphasizes usefulness to present and potential resource providers and others in making rational decisions about allocating resources to not-for-profit organizations. Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, emphasizes that usefulness of financial reporting information for those decisions rests on the cornerstones of relevance and reliability.

10. The definitions in this Statement are of economic things and events that are relevant to investment, credit, and other resource-allocation decisions and thus are relevant to financial reporting. Those decisions involve committing (or continuing to commit) resources to an entity. The elements defined are an

entity's resources, the claims to or interests in those resources, and the changes therein from transactions and other events and circumstances involved in its use of resources to produce and distribute goods or services and, if it is a business enterprise, to earn a profit. Relevance of information about items that meet those definitions stems from the significance of an entity's resources and changes in resources (including those affecting profitability).

11. Economic resources or assets and changes in them are central to the existence and operations of an individual entity. Both business enterprises and not-for-profit organizations are in essence resource or assets processors, and a resource's capacity to be exchanged for cash or other resources or to be combined with other resources to produce needed or desired scarce goods or services gives it utility and value (future economic benefit) to an entity.

12. Business enterprises and not-for-profit organizations obtain the resources they need from various sources. Business enterprises and some not-for-profit organizations sell the goods and services they produce for cash or claims to cash. Both buy goods and services for cash or by incurring liabilities to pay cash. Business enterprises receive resources from investments in the enterprise by owners, while not-for-profit organizations commonly receive significant amounts of resources from contributors who do not expect to receive either repayment or economic benefits proportionate to resources provided. Those contributions are the major source of resources for many not-for-profit organizations but are not significant for other not-for-profit organizations or for most business enterprises.

13. A not-for-profit organization obtains and uses resources to provide certain types of goods or services to members of society, and the nature of those goods or services or the identity of the groups or individuals who receive them is often critical in donors' or other resource providers' decisions to contribute or otherwise provide cash or other assets to a particular organization. Many donors provide resources to support certain types of services or for the benefit of certain groups and may stipulate how or when (or both) an organization may use the cash or other resources they contribute to it. Those donor-imposed restrictions on a not-for-profit organization's use of assets may be either permanent or temporary.

14. Resources or assets are the lifeblood of a not-for-profit organization, and an organization cannot long continue to achieve its operating objectives unless it can obtain at least enough resources to provide goods or services at levels and of a quality that are satisfactory to resource providers. Organizations that do not provide adequate goods or services often find it increasingly difficult to obtain the resources they need to continue operations.

15. Economic resources or assets are also the lifeblood of a business enterprise. Since resources or assets confer their benefits on an enterprise by being exchanged, used, or otherwise invested, changes in resources or assets are the purpose, the means, and the result of an enterprise's operations, and a business enterprise exists primarily to acquire, use, produce, and distribute resources. Through those activities it both provides goods or services to members of society and obtains cash and other assets with which it compensates those who provide it with resources, including its owners.

16. Although the relation between profit of an enterprise and compensation received by owners is complex and often indirect, profit is the basic source of compensation to owners for providing equity or risk capital to an enterprise. Profitable operations generate resources that can be distributed to owners or reinvested in the enterprise, and investors' expectations about both distributions to owners and reinvested profit may affect market prices of the enterprise's equity securities. Expectations that owners will be adequately compensated—that they will receive returns on their investments commensurate with their risks—are as necessary to attract equity capital to an enterprise as are expectations of wages and salaries to attract employees' services, expectations of repayments of borrowing with interest to attract borrowed funds, or expectations of payments on account to attract raw materials or merchandise.

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17. Repayment or compensation of lenders, employees, suppliers, and other nonowners for resources provided is also related to profit or loss in the sense that profitable enterprises (and those that break even) generally are able to repay borrowing with interest, pay adequate wages and salaries, and pay for other goods and services received, while unprofitable enterprises often become less and less able to pay and thus find it increasingly difficult to obtain the resources they need to continue operations. Thus, information about profit and its components is of interest to suppliers, employees, lenders, and other providers of resources as well as to owners.

18. In contrast to business enterprises, not-for-profit organizations do not have defined ownership interests that can be sold, transferred, or redeemed, or that convey entitlement to a share of a residual distribution of resources in the event of liquidation of the organization. A not-for-profit organization is required to use its resources to provide goods and services to its constituents and beneficiaries as specified in its articles of incorporation (or comparable

document for an unincorporated association) or by-laws and generally is prohibited from distributing assets as dividends to its members, directors, officers, or others. Thus, not-for-profit organizations have operating purposes that are other than to provide goods or services at a profit or profit equivalent, and resource providers do not focus primarily on profit as an indicator of a not-for-profit organization's performance.

19. Instead, providers of resources to a not-for-profit organization are interested in the services the organization provides and its ability to continue to provide them. Since profit indicators are not the focus of their resource-allocation decisions, resource providers need other information that is useful in assessing an organization's performance during a period and in assessing how its managers have discharged their stewardship responsibilities, not only for the custody and safekeeping of the organization's resources, but also for their efficient and effective use—that is, information about the amounts and kinds of inflows and outflows of resources during a period and the relations between them and information about service efforts and, to the extent possible, service accomplishments.

Interrelation of Elements—Articulation

20. Elements of financial statements are of two different types, which are sometimes explained as being analogous to photographs and motion pictures. The elements defined in this Statement include three of one type and seven of the other. (Three of the latter apply only to business enterprises.) Assets, liabilities, and equity (net assets) describe levels or amounts of resources or claims to or interests in resources at a moment in time. All other elements describe effects of transactions and other events and circumstances that affect an entity during intervals of time (periods). In a business enterprise, the second type includes comprehensive income and its components—revenues, expenses, gains, and losses—and investments by owners and distributions to owners. In a not-for-profit organization, it includes revenues, expenses, gains, and losses.

21. The two types of elements are related in such a way that (a) assets, liabilities, and equity (net assets) are changed by elements of the other type and at any time are their cumulative result and (b) an increase (decrease) in an asset cannot occur without a corresponding decrease (increase) in another asset or a corresponding increase (decrease) in a liability or equity (net assets). Those relations are sometimes collectively referred to as "articulation." They result in financial statements that are fundamentally interrelated so that statements that show elements of the second type depend on statements that show elements of the first type and vice versa.

Definition, Recognition, Measurement, and Display

22. All matters of recognition, measurement, and display have purposely been separated from the definitions of the elements of financial statements in the Board's conceptual framework project. The definitions in this Statement are concerned with the essential characteristics of elements of financial statements. Other phases of the conceptual framework project are concerned with questions such as which financial statements should be provided; which items that qualify under the definitions should be included in those statements; when particular items that qualify as assets, liabilities, revenues, expenses, and so forth should be formally recognized in the financial statements; which attributes of those items should be measured; which unit of measure should be used; and how the information included should be classified and otherwise displayed.

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23. Definitions of elements of financial statements are a significant first screen in determining the content of financial statements. An item's having the essential characteristics of one of the elements is a necessary but not a sufficient condition for formally recognizing the item in the entity's financial statements. To be included in a particular set of financial statements, an item must not only qualify under the definition of an element but also must meet criteria for recognition and have a relevant attribute (or surrogate for it) that is capable of reasonably reliable measurement or estimate. Thus, some items that meet the definitions may have to be excluded from formal incorporation in financial statements because of recognition or measurement considerations (paragraphs 44-48).

DEFINITIONS OF ELEMENTS

24. All elements are defined in relation to a particular entity, which may be a business enterprise, an educational or charitable organization, a natural person, or the like. An item that qualifies under the definitions is a particular entity's asset, liability, revenue, expense, or so forth. An entity may comprise

two or more affiliated entities and does not necessarily correspond to what is often described as a "legal entity." The definitions may also refer to "other entity," "other entities," or "entities other than the enterprise," which may include individuals, business enterprises, not-for-profit organizations, and the like. For example, employees, suppliers, customers or beneficiaries, lenders, stockholders, donors, and governments are all "other entities" to a particular entity. A subsidiary company that is part of the same entity as its parent company in consolidated financial statements is an "other entity" in the separate financial statements of its parent.

Assets

25. Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

Characteristics of Assets

26. An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred. Assets commonly have other features that help identify them—for example, assets may be acquired at a cost and they may be tangible, exchangeable, or legally enforceable. However, those features are not essential characteristics of assets. Their absence, by itself, is not sufficient to preclude an item's qualifying as an asset. That is, assets may be acquired without cost, they may be intangible, and although not exchangeable they may be usable by the entity in producing or distributing other goods or services. Similarly, although the ability of an entity to obtain benefit from an asset and to control others' access to it generally rests on a foundation of legal rights, legal enforceability of a claim to the benefit is not a prerequisite for a benefit to qualify as an asset if the entity has the ability to obtain and control the benefit in other ways.

27. The kinds of items that qualify as assets under the definition in paragraph 25 are also commonly called economic resources. They are the scarce means that are useful for carrying out economic activities, such as consumption, production, and exchange.

28. The common characteristic possessed by all assets (economic resources) is "service potential" or "future economic benefit," the scarce capacity to provide services or benefits to the entities that use them. In a business enterprise, that service potential or future economic benefit eventually results in net cash inflows to the enterprise. In a not-for-profit organization, that service potential or future economic benefit is used to provide desired or needed goods or services to beneficiaries or other constituents, which may or may not directly result in net cash inflows to the organization. Some not-for-profit organizations rely significantly on contributions or donations of cash to supplement selling prices or to replace cash or other assets used in providing goods or services. The relationship between service potential or future economic benefit of its assets and net cash inflows to an entity is often indirect in both business enterprises and not-for-profit organizations.

29. Money (cash, including deposits in banks) is valuable because of what it can buy. It can be exchanged for virtually any good or service that is available or it can be saved and exchanged for them in the future. Money's "command over resources"—its purchasing power—is the basis of its value and future economic benefits.

30. Assets other than cash benefit an entity by being exchanged for cash or other goods or services, by being used to produce goods or services or otherwise increase the value of other assets, or by being used to settle liabilities. To carry out their operating purposes, both business enterprises and not-for-profit organizations commonly produce scarce goods or services that have the capacity to satisfy human wants or needs. Both create utility and value in essentially the same way—by using goods or services to produce other goods or services that their customers or constituents desire or need. Business enterprises expect customers to pay for the utility and value added, and they price their outputs accordingly. Many not-for-profit organizations also distribute some or all of their outputs of goods or services at prices that include the utility and value they have added. Other not-for-profit organizations commonly distribute the goods or services they produce to beneficiaries gratis or at nominal prices. Although that may make measuring the value of their outputs difficult, it does not deprive them of value.

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31. Services provided by other entities, including personal services, cannot be stored and are received and used simultaneously. They can be assets of an entity only momentarily—as the entity receives and uses them—although their use may create or add value to other assets of the entity. Rights to receive services of other entities for specified or determinable future periods can be assets of particular entities.

Transactions and Events That Change Assets

32. Assets of an entity are changed both by its transactions and activities and by events that happen to it. An entity obtains cash and other assets from other entities and transfers cash and other assets to other entities. It adds value to noncash assets through operations by using, combining, and transforming goods and services to make other desired goods or services. Some transactions or other events decrease one asset and increase another. An entity's assets or their values are also commonly increased or decreased by other events and circumstances that may be partly or entirely beyond the control of the entity and its management, for example, price changes, interest rate changes, technological changes, impositions of taxes and regulations, discovery, growth or accretion, shrinkage, vandalism, thefts, expropriations, wars, fires, and natural disasters.

33. Once acquired, an asset continues as an asset of the entity until the entity collects it, transfers it to another entity, or uses it up, or some other event or circumstance destroys the future benefit or removes the entity's ability to obtain it.

Valuation Accounts

34. A separate item that reduces or increases the carrying amount of an asset is sometimes found in financial statements. For example, an estimate of uncollectible amounts reduces receivables to the amount expected to be collected, or a premium on a bond receivable increases the receivable to its cost or present value. Those "valuation accounts" are part of the related assets and are neither assets in their own right nor liabilities.

Liabilities

35. Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

Characteristics of Liabilities

36. A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened. Liabilities commonly have other features that help identify them—for example, most liabilities require the obligated entity to pay cash to one or more identified other entities and are legally enforceable. However, those features are not essential characteristics of liabilities. Their absence, by itself, is not sufficient to preclude an item's qualifying as a liability. That is, liabilities may not require an entity to pay cash but to convey other assets, to provide or stand ready to provide services, or to use assets. And the identity of the recipient need not be known to the obligated entity before the time of settlement. Similarly, although most liabilities rest generally on a foundation of legal rights and duties, existence of a legally enforceable claim is not a prerequisite for an obligation to qualify as a liability if for other reasons the entity has the duty or responsibility to pay cash, to transfer other assets, or to provide services to another entity.

37. Most liabilities stem from human inventions—such as financial instruments, contracts, and laws—that facilitate the functioning of a highly developed economy and are commonly embodied in legal obligations and rights (or the equivalent) with no existence apart from them. Liabilities facilitate the functioning of a highly developed economy primarily by permitting delay—delay in payment, delay in delivery, and so on.

38. Entities routinely incur most liabilities to acquire the funds, goods, and services they need to operate and just as routinely settle the liabilities they incur. For example, borrowing cash obligates an entity to repay the amount borrowed, usually with interest; acquiring assets on credit obligates an entity to pay for them, perhaps with interest to compensate for the delay in payment; using employees' knowledge, skills, time, and efforts obligates an enterprise to pay for their use, often including fringe benefits; selling products with a warranty or guarantee

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obligates an entity to pay cash or to repair or replace those that prove defective; and accepting a cash deposit or prepayment obligates an entity to provide goods or services or to refund the cash. In short, most liabilities are incurred in exchange transactions to obtain needed resources or their use, and most liabilities incurred in exchange transactions are contractual in nature—based on written or oral agreements to pay cash or to provide goods or services to specified or determinable entities on demand, at specified or determinable dates, or on occurrence of specified events.

39. Although most liabilities result from agreements between entities, some obligations are imposed on entities by government or courts or are accepted to avoid imposition by government or courts (or costly efforts related thereto), and some relate to other nonreciprocal transfers from an entity to one or more other entities. Thus, taxes, laws, regulations, and other governmental actions commonly require business enterprises (and sometimes not-for-profit organizations) to pay cash, convey other assets, or provide services either directly to specified governmental units or to others for purposes or in ways specified by government. An entity may also incur liabilities for donations pledged to educational or charitable organizations or for cash dividends declared but not paid.

40. Similarly, although most liabilities stem from legally enforceable obligations, some liabilities rest on equitable or constructive obligations, including some that arise in exchange transactions. Liabilities stemming from equitable or constructive obligations are commonly paid in the same way as legally binding contracts, but they lack the legal sanction that characterizes most liabilities and may be binding primarily because of social or moral sanctions or custom. An equitable obligation stems from ethical or moral constraints rather than from rules of common or statute law, that is, from a duty to another entity to do that which an ordinary conscience and sense of justice would deem fair, just, and right—to do what one ought to do rather than what one is legally required to do. For example, a business enterprise may have an equitable obligation to complete and deliver a product to a customer that has no other source of supply even though its failure to deliver would legally require only return of the customer's deposit. A constructive obligation is created, inferred, or construed from the facts in a particular situation rather than contracted by agreement with another entity or imposed by government. For example, an entity may create a constructive obligation to employees for vacation pay or year-end bonuses by paying them every year even though it is not contractually bound to do so and has not announced a policy to do so. The line between equitable or constructive obligations and obligations that are enforceable in courts of law is not always clear, and the line between equitable or constructive obligations and no obligations may often be even more troublesome because to determine whether an entity is actually bound by an obligation to a third party in the absence of legal enforceability is often extremely difficult. Thus, the concepts of equitable and constructive obligations must be applied with great care. To interpret equitable and constructive obligations too narrowly will tend to exclude significant actual obligations of an entity, while to interpret them too broadly will effectively nullify the definition by including items that lack an essential characteristic of liabilities.

Transactions and Events That Change Liabilities

41. Liabilities of an entity are changed both by its transactions and activities and by events that happen to it. The preceding paragraphs note most major sources of changes in liabilities. An entity's liabilities are also sometimes affected by price changes, interest rate changes, or other events and circumstances that may be partly or wholly beyond the control of an entity and its management.

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42. Once incurred, a liability continues as a liability of the entity until the entity settles it, or another event or circumstance discharges it or removes the entity's responsibility to settle it.

Valuation Accounts

43. A separate item that reduces or increases the carrying amount of a liability is sometimes found in financial statements. For example, a bond premium or discount increases or decreases the face value of a bond payable to its proceeds or present value. Those "valuation accounts" are part of the related liability and are neither liabilities in their own right nor assets.

Effects of Uncertainty

44. Uncertainty about economic and business activities and results is pervasive, and it often clouds whether a particular item qualifies as an asset or a liability of a particular entity at the time the definitions are applied. The presence or absence of future economic benefit that can be obtained and controlled

by the entity or of the entity's legal, equitable, or constructive obligation to sacrifice assets in the future can often be discerned reliably only with hindsight. As a result, some items that with hindsight actually qualified as assets or liabilities of the entity under the definitions may, as a practical matter, have been recognized as expenses, losses, revenues, or gains or remained unrecognized in its financial statements because of uncertainty about whether they qualified as assets or liabilities of the entity or because of recognition and measurement considerations stemming from uncertainty at the time of assessment. Conversely, some items that with hindsight did not qualify under the definitions may have been included as assets or liabilities because of judgments made in the face of uncertainty at the time of assessment.

45. An effect of uncertainty is to increase the costs of financial reporting in general and the costs of recognition and measurement in particular. Some items that qualify as assets or liabilities under the definitions may therefore be recognized as expenses, losses, revenues, or gains or remain unrecognized as a result of cost and benefit analyses indicating that their formal incorporation in financial statements is not useful enough to justify the time and effort needed to do it. It may be possible, for example, to make the information more reliable in the face of uncertainty by exerting greater effort or by spending more money, but it also may not be worth the added cost.

46. A highly significant practical consequence of the features described in the preceding two paragraphs is that the existence or amount (or both) of most assets and many liabilities can be probable but not certain. The definitions in this Statement are not intended to require that the existence and amounts of items be certain for them to qualify as assets, liabilities, revenues, expenses, and so forth, and estimates and approximations will often be required unless financial statements are to be restricted to reporting only cash transactions.

47. To apply the definitions of assets and liabilities (and other elements of financial statements) thus commonly requires assessments of probabilities, but degrees of probability are not part of the definitions. That is, the degree of probability of a future economic benefit (or of a future cash outlay or other sacrifice of future economic benefits) and the degree to which its amount can be estimated with reasonable reliability that are required to recognize an item as an asset (or a liability) are matters of recognition and measurement that are beyond the scope of this Statement. The distinction needs to be maintained between the definitions themselves and steps that may be needed to apply them. Matters involving measurement problems, effects of uncertainty, reliability, and numerous other factors may be significant in applying a definition, but they are not part of the definition. Particular items that qualify as assets or liabilities under the definitions may need to be excluded from formal incorporation in financial statements for reasons relating to measurement, uncertainty, or unreliability, but they are not excluded by the definitions. Similarly, the attitude commonly known as conservatism may be appropriate in applying the definitions under uncertain conditions, but conservatism is not part of the definitions. Definition, recognition, measurement, and display are separate in the Board's conceptual framework (paragraphs 22 and 23).

48. All practical financial accounting and reporting models have limitations. The preceding paragraphs describe one limit that may affect various models—how recognition or measurement considerations stemming from uncertainty may result in not recognizing as assets or liabilities some items that qualify as such under the definitions or may result in postponing recognition of some assets or liabilities until their existence becomes more probable or their measures become more reliable.

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Equity or Net Assets

49. Equity or net assets is the residual interest in the assets of an entity that remains after deducting its liabilities.

Equity of Business Enterprises and Net Assets of Not-for-Profit Organizations

50. The equity or net assets of both a business enterprise and a not-for-profit organization is the difference between the entity's assets and its liabilities. It is a residual, affected by all events that increase or decrease total assets by different amounts than they increase or decrease total liabilities. Thus, equity or net assets of both a business enterprise and a not-for-profit organization is increased or decreased by the entity's operations and other events and circumstances affecting the entity.

51. A major distinguishing characteristic of the equity of a business enterprise is that it may be increased through investments of assets by owners who also may, from time to time, receive distributions of assets from the entity. Owners invest in a business enterprise with the expectation of obtaining a return on

their investment as a result of the enterprise's providing goods or services to customers at a profit. Owners benefit if the enterprise is profitable but bear the risk that it may be unprofitable (paragraphs 11, 12, 15-17).

52. In contrast, a not-for-profit organization has no ownership interest or profit purpose in the same sense as a business enterprise and thus receives no investments of assets by owners and distributes no assets to owners. Rather, its net assets often is increased by receipts of assets from resource providers (contributors, donors, grantors, and the like) who do not expect to receive either repayment or economic benefits proportionate to the assets provided but who are nonetheless interested in how the organization makes use of those assets and often impose temporary or permanent restrictions on their use (paragraphs 11-13, 18, and 19).

53. Since the interests of investor-owners of business enterprises and the interests of donors to not-for-profit organizations differ, this Statement discusses separately (a) equity of business enterprises (paragraphs 60-63) and the transactions and events that change equity (paragraphs 64-89) and (b) net assets of not-for-profit organizations (paragraphs 90-106) and the transactions and events that change net assets (paragraphs 107-133).

Equity and Liabilities

54. An entity's assets, liabilities, and equity (net assets) all pertain to the same set of probable future economic benefits. Assets are probable future economic benefits owned or controlled by the entity. Its liabilities are claims to the entity's assets by other entities and, once incurred, involve nondiscretionary future sacrifices of assets that must be satisfied on demand, at a specified or determinable date, or on occurrence of a specified event. In contrast, equity is a residual interest—what remains after liabilities are deducted from assets—and depends significantly on the profitability of a business enterprise or on fund-raising or other major or central operations of a not-for-profit organization. A not-for-profit organization may provide goods or services to resource providers who are also employees, members, or beneficiaries, but except upon dissolution or final liquidation of the organization, it cannot distribute assets to members or other resource providers as owners. A business enterprise may distribute assets resulting from income to its owners, but distributions to owners are discretionary, depending on the volition of owners or their representatives after considering the needs of the enterprise and restrictions imposed by law, regulation, or agreement. An enterprise is generally not obligated to transfer assets to owners except in the event of the enterprise's liquidation. An enterprise's liabilities and equity are mutually exclusive claims to or interests in the enterprise's assets by entities other than the enterprise, and liabilities take precedence over ownership interests.

55. Although the line between equity and liabilities is clear in concept, it may be obscured in practice. Applying the definitions to particular situations may involve practical problems because several kinds of securities issued by business enterprises seem to have characteristics of both liabilities and equity in varying degrees or because the names given some securities may not accurately describe their essential characteristics. For example, convertible debt instruments have both liability and residual-interest characteristics, which may create problems in accounting for them. (APB Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants*, and APB Opinion No. 15, *Earnings per Share*, both discuss problems of that kind.) Preferred stock also often has both debt and equity characteristics, and some preferred stocks may effectively have maturity amounts and dates at which they must be redeemed for cash.

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56. Similarly, the line between net assets and liabilities of not-for-profit organizations may be obscured in practice because donors' restrictions that specify the use of contributed assets may seem to result in liabilities, although most do not. The essence of a not-for-profit organization is that it obtains and uses resources to provide specific types of goods or services, and the nature of those goods or services is often critical in donors' decisions to contribute cash or other assets to a particular organization. Most donors contribute assets (restricted as well as unrestricted) to an organization to increase its capacity to provide those goods or services, and receipt of donated assets not only increases the assets of the organization but also imposes a fiduciary responsibility on its management to use those assets effectively and efficiently in pursuit of those service objectives.

57. That responsibility pertains to all of the organization's assets and does not constitute an equitable or constructive obligation as described in paragraphs 36-40. In other words, a not-for-profit organizations' fiduciary responsibility to use assets to provide services to beneficiaries does not itself create a duty of the organization to pay cash, transfer other assets, or provide services to one or more creditors. Rather, an obligation to a creditor results when the

organization buys supplies for a project, its employees work on it, and the like, and the organization therefore owes suppliers, employees, and others for goods and services they have provided to it.

58. A donor's restriction focuses that fiduciary responsibility on a stipulated use for specified contributed assets but does not change the basic nature of the organization's fiduciary responsibility to use its assets to provide services to beneficiaries. A donor's gift of cash to be spent for a stipulated purpose or of another asset to be used for a stipulated purpose—for example, a mansion to be used as a museum, a house to be used as a dormitory, or a sculpture to be displayed in a cemetery—imposes a responsibility to spend the cash or use the asset in accordance with the donor's instructions. In its effect on the liabilities of the organization, a donor's restriction is essentially the same as management's designating a specified use for certain assets. That is, the responsibility imposed by earmarking assets for specified uses is fundamentally different, both economically and legally, from the responsibility imposed by incurring a liability, which involves a creditor's claim. Consequently, most donor-imposed restrictions on an organization's use of contributed assets do not create obligations that qualify as liabilities of the organization.

59. To determine whether liabilities or equity (net assets) result from issuing specific securities with both debt and equity characteristics or from specific donors' stipulations presents practical problems of applying definitions rather than problems of determining the essential characteristics of those definitions. Adequate definitions are the starting point. They provide a basis for assessing, for example, the extent to which a particular application meets the qualitative characteristic of representational faithfulness, which includes the notion of reporting economic substance rather than legal form (Concepts Statement 2, paragraphs 63-80 and 160).

Equity of Business Enterprises

Characteristics of Equity of Business Enterprises

60. In a business enterprise, the equity is the ownership interest. It stems from ownership rights (or the equivalent) and involves a relation between an enterprise and its owners *as owners* rather than as employees, suppliers, customers, lenders, or in some other nonowner role. Since equity ranks after liabilities as a claim to or interest in the assets of the enterprise, it is a residual interest: (a) equity is the same as net assets, the difference between the enterprise's assets and its liabilities, and (b) equity is enhanced or burdened by increases and decreases in net assets from nonowner sources as well as investments by owners and distributions to owners.

61. Equity sets limits, often legal limits, on distributions by an enterprise to its owners, whether in the form of cash dividends or other distributions of assets. Owners' and others' expectations about distributions to owners may affect the market prices of an enterprise's equity securities, thereby indirectly affecting owners' compensation for providing equity or risk capital to the enterprise (paragraph 16). Thus, the essential characteristics of equity center on the conditions for transferring enterprise assets to owners. Equity—an excess of assets over liabilities—is a necessary but not sufficient condition; distributions to owners are at the discretion and volition of the owners or their representatives after satisfying restrictions imposed by law, regulation, or agreements with other entities. Generally, an enterprise is not obligated to transfer assets to owners except in the event of the enterprise's liquidation unless the enterprise formally acts to distribute assets to owners, for example, by declaring a dividend. Owners may sell their interests in an enterprise to others and thus may be able to obtain a return *of* part or all of their investments and perhaps a return *on* investments through a securities market, but those transactions do not normally affect the equity of an enterprise or its assets or liabilities.

62. An enterprise may have several classes of equity (for example, one or more classes each of common stock or preferred stock) with different degrees of risk stemming from different rights to participate in distributions of enterprise assets or different priorities of claims on enterprise assets in the event of liquidation. That is, some classes of owners may bear relatively more of the risks of an enterprise's unprofitability or may benefit relatively more from its profitability (or both) than other classes of owners. However, all classes depend at least to some extent on enterprise profitability for distributions of enterprise assets, and no class of equity carries an unconditional right to receive future transfers of assets from the enterprise except in liquidation, and then only after liabilities have been satisfied.

63. Equity is originally created by owners' investments in an enterprise and may from time to time be augmented by additional investments by owners. Equity is reduced by distributions by the enterprise to owners. However, the distinguishing characteristic of equity is that it inevitably is affected by the enterprise's operations and other events and circumstances affecting the enterprise (which together constitute comprehensive income—paragraph 70).

Transactions and Events That Change Equity of Business Enterprises

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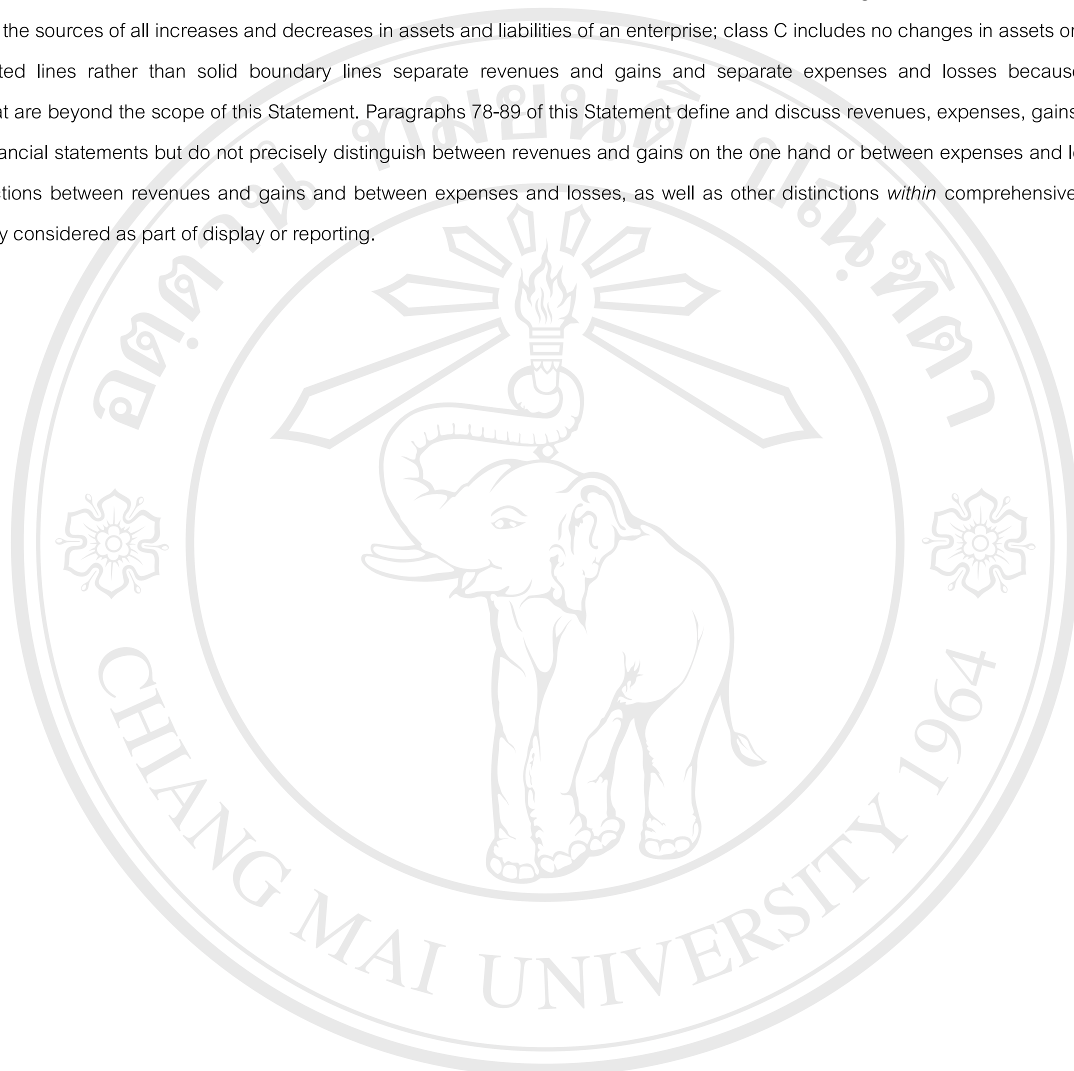
64. The following diagram shows the sources of changes in equity (class B) and distinguishes them from each other and from other transactions, events, and circumstances affecting an entity during a period (classes A and C). Specifically, the diagram shows that (a) class B (changes in equity) comprises two mutually exclusive classes of transactions and other events and circumstances, B1 and B2, each of which has significant subclasses, and (b) classes B1, B2, and A are the sources of all increases and decreases in assets and liabilities of an enterprise; class C includes no changes in assets or liabilities. In the diagram, dotted lines rather than solid boundary lines separate revenues and gains and separate expenses and losses because of display considerations that are beyond the scope of this Statement. Paragraphs 78-89 of this Statement define and discuss revenues, expenses, gains, and losses as elements of financial statements but do not precisely distinguish between revenues and gains on the one hand or between expenses and losses on the other. Fine distinctions between revenues and gains and between expenses and losses, as well as other distinctions *within* comprehensive income are more appropriately considered as part of display or reporting.



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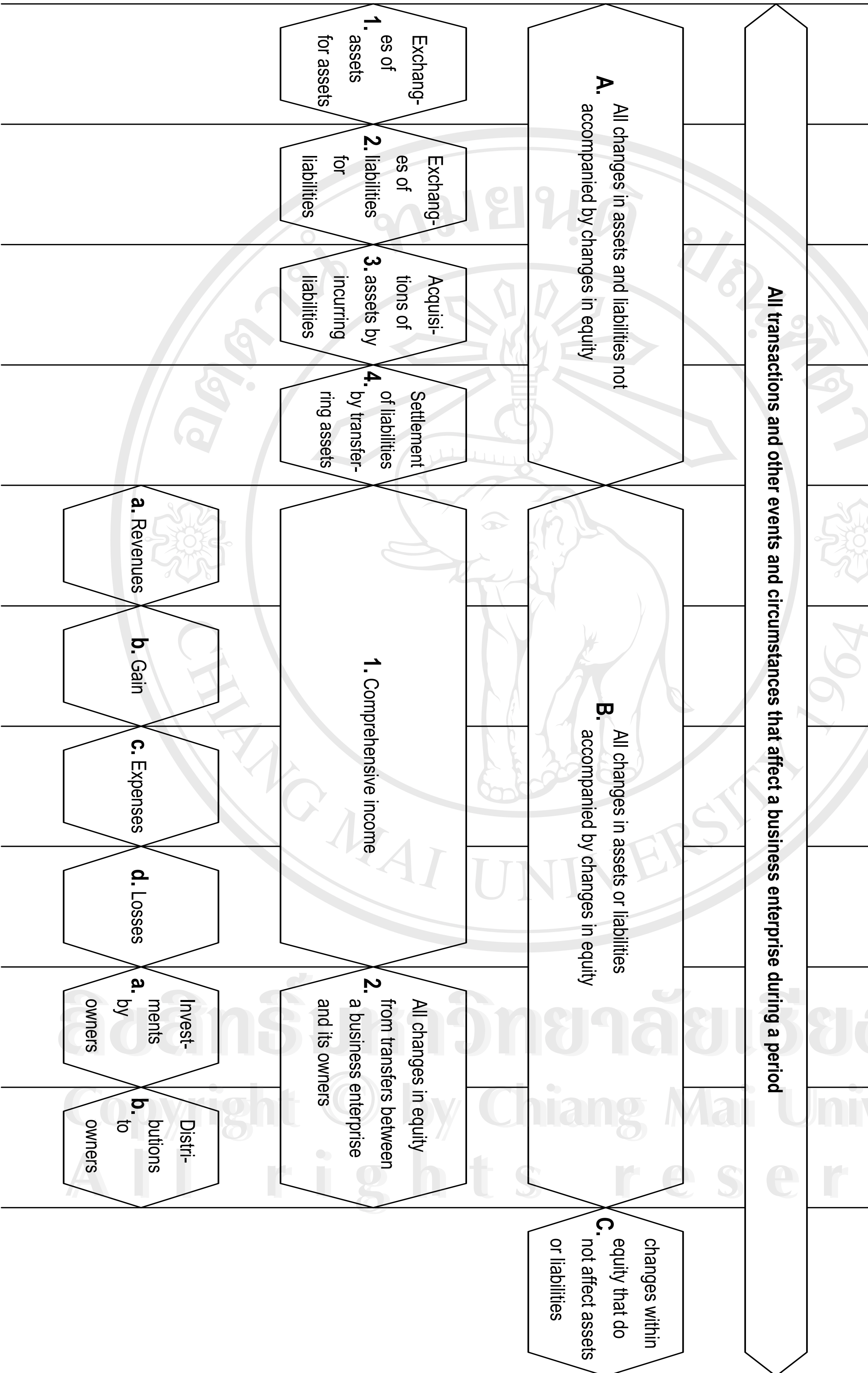

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65. The full width of the diagram, represented by the two-pointed arrow labeled "All transactions and other events and circumstances that affect a business enterprise during a period," encompasses all potentially recordable events and circumstances affecting an entity. Moving from top to bottom of the

diagram, each level divides the preceding level into classes that are significant for the definitions and related concepts in this Statement. (Size of classes does not indicate their relative volume or significance.)

A. All changes in assets and liabilities not accompanied by changes in equity. This class comprises four kinds of exchange transactions that are common in most entities. (Exchanges that affect equity belong in class B rather than class A.)

1. Exchanges of assets for assets, for example, purchases of assets for cash or barter exchanges
2. Exchanges of liabilities for liabilities, for example, issues of notes payable to settle accounts payable or refundings of bonds payable by issuing new bonds to holders that surrender outstanding bonds
3. Acquisitions of assets by incurring liabilities, for example, purchases of assets on account, borrowings, or receipts of cash advances for goods or services to be provided in the future
4. Settlements of liabilities by transferring assets, for example, repayments of borrowing, payments to suppliers on account, payments of accrued wages or salaries, or repairs (or payments for repairs) required by warranties

B. All changes in assets or liabilities accompanied by changes in equity. This class is the subject of this section and comprises:

1. Comprehensive income (defined in paragraph 70) whose components (broadly defined and discussed in paragraphs 78-89) are:
   a. Revenues
   b. Gains
   c. Expenses
   d. Losses
2. All changes in equity from transfers between a business enterprise and its owners (defined in paragraphs 66 and 67):
   a. Investments by owners in the enterprise
   b. Distributions by the enterprise to owners

C. Changes within equity that do not affect assets or liabilities (for example, stock dividends, conversions of preferred stock into common stock, and some stock recapitalizations). This class contains only changes *within* equity and does not affect the definition of equity or its amount.

The definitions in paragraphs 70-89 are those in class B1—comprehensive income—and its subclasses—revenues, expenses, gains, and losses.

Investments by and Distributions to Owners

66. Investments by owners are increases in equity of a particular business enterprise resulting from transfers to it from other entities of something valuable to obtain or increase ownership interests (or equity) in it. Assets are most commonly received as investments by owners, but that which is received may also include services or satisfaction or conversion of liabilities of the enterprise.

67. Distributions to owners are decreases in equity of a particular business enterprise resulting from transferring assets, rendering services, or incurring liabilities by the enterprise to owners. Distributions to owners decrease ownership interest (or equity) in an enterprise.

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Characteristics of Investments by and Distributions to Owners

68. Investments by owners and distributions to owners are transactions between an enterprise and its owners *as owners*. Through investments by owners, an enterprise obtains resources it needs to begin or expand operations, to retire debt securities or other liabilities, or for other business purposes; as a result of investing resources in the enterprise, other entities obtain ownership interests in the enterprise or increase ownership interests they already have. Not all investments in the equity securities of an enterprise by other entities are investments by owners as that concept is defined in this Statement. In an investment by owners, the enterprise that issues the securities acquired by an owner always receives the proceeds or their benefits; its net assets increase. If the purchaser of equity securities becomes an owner or increases its ownership interest in an enterprise by purchasing those securities from another owner that is decreasing or terminating its ownership interest, the transfer does not affect the net assets of the enterprise.

69. Distributions by an enterprise to its owners decrease its net assets and decrease or terminate ownership interests of those that receive them. Reacquisition by an entity of its own equity securities by transferring assets or incurring liabilities to owners is a distribution to owners as that concept is defined in this Statement. Since owners become creditors for a dividend declared until it is paid, an enterprise's incurrence of a liability to transfer assets to owners in the future converts a part of the equity or ownership interest of the enterprise into creditors' claims; settlement of the liability by transfer of the assets is a transaction in class A4 in the diagram in paragraph 64 rather than in class B2(b). That is, equity is reduced by the incurrence of the liability to owners, not by its settlement.

Comprehensive Income of Business Enterprises

70. Comprehensive income is the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Concepts of Capital Maintenance

71. A concept of maintenance of capital or recovery of cost is a prerequisite for separating return *on* capital from return *of* capital because only inflows in excess of the amount needed to maintain capital are a return *on* equity. Two major concepts of capital maintenance exist, both of which can be measured in units of either money or constant purchasing power: the financial capital concept and the physical capital concept (which is often expressed in terms of maintaining operating capability, that is, maintaining the capacity of an enterprise to provide a constant supply of goods or services). The major difference between them involves the effects of price changes on assets held and liabilities owed during a period. Under the financial capital concept, if the effects of those price changes are recognized, they are called "holding gains and losses" and are included in return on capital. Under the physical capital concept, those changes would be recognized but called "capital maintenance adjustments" and would be included directly in equity and would not be included in return on capital. Under that concept, capital maintenance adjustments would be a separate element rather than gains and losses.

72. The financial capital concept is the traditional view and is generally the capital maintenance concept in present primary financial statements. Comprehensive income as defined in paragraph 70 is a return *on* financial capital.

Characteristics, Sources, and Components of Comprehensive Income

73. Over the life of a business enterprise, its comprehensive income equals the net of its cash receipts and cash outlays, excluding cash (and cash equivalent of noncash assets) invested by owners and distributed to owners (Concepts Statement 1, paragraph 46). That characteristic holds whether the amounts of cash and comprehensive income are measured in nominal dollars or constant dollars. Although the amounts in constant dollars may differ from those in nominal dollars, the basic relationship is not changed because both nominal and constant dollars express the same thing using different measuring units. Matters such as recognition criteria and choice of attributes to be measured also do not affect the amounts of comprehensive income and net cash receipts over the life of an enterprise but do affect the time and way parts of the total are identified with the periods that constitute the entire life. Timing of recognition of revenues, expenses, gains, and losses is also a major difference between accounting based on cash receipts and outlays and accrual accounting. Accrual accounting may encompass various timing possibilities—for example, when goods or services are provided, when cash is received, or when prices change.

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74. Comprehensive income of a business enterprise results from (a) exchange transactions and other transfers between the enterprise and other entities that are not its owners, (b) the enterprise's productive efforts, and (c) price changes, casualties, and other effects of interactions between the enterprise and the economic, legal, social, political, and physical environment of which it is part. An enterprise's productive efforts and most of its exchange transactions with other entities are ongoing major activities that constitute the enterprise's central operations by which it attempts to fulfill its basic function in the economy of producing and distributing goods or services at prices that are sufficient to enable it to pay for the goods and services it uses and to provide a satisfactory return to its owners.

75. Comprehensive income is a broad concept. Although an enterprise's ongoing major or central operations are generally intended to be the primary source of comprehensive income, they are not the only source. Most entities occasionally engage in activities that are peripheral or incidental to their central activities. Moreover, all entities are affected by the economic, legal, social, political, and physical environment of which they are part, and

comprehensive income of each enterprise is affected by events and circumstances that may be partly or wholly beyond the control of individual enterprises and their managements.

76. Although cash resulting from various sources of comprehensive income is the same, receipts from various sources may vary in stability, risk, and predictability. That is, characteristics of various sources of comprehensive income may differ significantly from one another, indicating a need for information about various components of comprehensive income. That need underlies the distinctions between revenues and gains, between expenses and losses, between various kinds of gains and losses, and between measures found in present practice such as income from continuing operations and income after extraordinary items and cumulative effect of change in accounting principle.

77. Comprehensive income comprises two related but distinguishable types of components. It consists of not only its basic components—revenues, expenses, gains, and losses—but also various intermediate components that result from combining the basic components. Revenues, expenses, gains, and losses can be combined in various ways to obtain several measures of enterprise performance with varying degrees of inclusiveness. Examples of intermediate components in business enterprises are gross margin, income from continuing operations before taxes, income from continuing operations, and operating income. Those intermediate components are, in effect, subtotals of comprehensive income and often of one another in the sense that they can be combined with each other or with the basic components to obtain other intermediate measures of comprehensive income.

Revenues

78. Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Characteristics of Revenues

79. Revenues represent actual or expected cash inflows (or the equivalent) that have occurred or will eventuate as a result of the entity's ongoing major or central operations. The assets increased by revenues may be of various kinds—for example, cash, claims against customers or clients, other goods or services received, or increased value of a product resulting from production. Similarly, the transactions and events from which revenues arise and the revenues themselves are in many forms and are called by various names—for example, output, deliveries, sales, fees, interest, dividends, royalties, and rent—depending on the kinds of operations involved and the way revenues are recognized.

Expenses

80. Expenses are outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

Characteristics of Expenses

81. Expenses represent actual or expected cash outflows (or the equivalent) that have occurred or will eventuate as a result of the entity's ongoing major or central operations. The assets that flow out or are used or the liabilities that are incurred may be of various kinds—for example, units of product delivered or produced, employees' services used, kilowatt hours of electricity used to light an office building, or taxes on current income. Similarly, the transactions and events from which expenses arise and the expenses themselves are in many forms and are called by various names—for example, cost of goods sold, cost of services provided, depreciation, interest, rent, and salaries and wages—depending on the kinds of operations involved and the way expenses are recognized.

Gains and Losses

82. Gains are increases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from revenues or investments by owners.

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83. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity and from all other transactions and other events and circumstances affecting the entity except those that result from expenses or distributions to owners.

Characteristics of Gains and Losses

84. Gains and losses result from entities' peripheral or incidental transactions and from other events and circumstances stemming from the environment that may be largely beyond the control of individual entities and their managements. Thus, gains and losses are not all alike. There are several kinds, even in a single entity, and they may be described or classified in a variety of ways that are not necessarily mutually exclusive.

85. Gains and losses may be described or classified according to sources. Some gains or losses are net results of comparing the proceeds and sacrifices (costs) in peripheral or incidental transactions with other entities—for example, from sales of investments in marketable securities, from dispositions of used equipment, or from settlements of liabilities at other than their carrying amounts. Other gains or losses result from nonreciprocal transfers between an entity and other entities that are not its owners—for example, from gifts or donations, from winning a lawsuit, from thefts, and from assessments of fines or damages by courts. Still other gains or losses result from holding assets or liabilities while their values change—for example, from price changes that cause inventory items to be written down from cost to market, from changes in market prices of investments in marketable equity securities accounted for at market values or at the lower of cost and market, and from changes in foreign exchange rates. And still other gains or losses result from other environmental factors, such as natural catastrophes—for example, damage to or destruction of property by earthquake or flood.

86. Gains and losses may also be described or classified as "operating" or "nonoperating," depending on their relation to an entity's major ongoing or central operations. For example, losses on writing down inventory from cost to market are usually considered to be operating losses, while major casualty losses are usually considered nonoperating losses.

Revenues, Expenses, Gains, and Losses

87. Revenues and gains are similar, and expenses and losses are similar, but some differences are significant in conveying information about an enterprise's performance. Revenues and expenses result from an entity's ongoing major or central operations and activities—that is, from activities such as producing or delivering goods, rendering services, lending, insuring, investing, and financing. In contrast, gains and losses result from incidental or peripheral transactions of an enterprise with other entities and from other events and circumstances affecting it. Some gains and losses may be considered "operating" gains and losses and may be closely related to revenues and expenses. Revenues and expenses are commonly displayed as gross inflows or outflows of net assets, while gains and losses are usually displayed as net inflows or outflows.

88. The definitions and discussion of revenues, expenses, gains, and losses in this Statement give broad guidance but do not distinguish precisely between revenues and gains or between expenses and losses. Distinctions between revenues and gains and between expenses and losses in a particular entity depend to a significant extent on the nature of the entity, its operations, and its other activities. Items that are revenues for one kind of entity may be gains for another, and items that are expenses for one kind of entity may be losses for another. For example, investments in securities that may be sources of revenues and expenses for insurance or investment companies may be sources of gains and losses in manufacturing or merchandising companies. Technological changes may be sources of gains or losses for most kinds of enterprises but may be characteristic of the operations of high-technology or research-oriented enterprises. Events such as commodity price changes and foreign exchange rate changes that occur while assets are being used or produced or liabilities are owed may directly or indirectly affect the *amounts* of revenues or expenses for most enterprises, but they are *sources* of revenues or expenses only for enterprises for which trading in foreign exchange or commodities is a major or central activity.

89. Since a primary purpose of distinguishing gains and losses from revenues and expenses is to make displays of information about an enterprise's sources of comprehensive income as useful as possible, fine distinctions between revenues and gains and between expenses and losses are principally matters of display or reporting (paragraphs 64, 219-220, and 228).

Net Assets of Not-for-Profit Organizations

Characteristics of Net Assets of Not-for-Profit Organizations

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90. In a not-for-profit organization, as in a business enterprise, net assets (equity) is a residual, the difference between the entity's assets and its liabilities but, in contrast to equity of a business enterprise, it is not an ownership interest. Distinguishing characteristics of a not-for-profit organization include absence of ownership interest(s) in the same sense as a business enterprise, operating purposes not centered on profit, and significant receipts of contributions, many involving donor-imposed restrictions (paragraphs 11-15, 18 and 19, and 49-53).

91. Net assets of not-for-profit organizations is divided into three mutually exclusive classes, permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets.

Classes of Net Assets

92. Permanently restricted net assets is the part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

93. Temporarily restricted net assets is the part of the net assets of a not-for-profit organization resulting (a) from contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) from other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) from reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

94. Unrestricted net assets is the part of net assets of a not-for-profit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations—that is, the part of net assets resulting (a) from all revenues, expenses, gains, and losses that are not changes in permanently or temporarily restricted net assets and (b) from reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the organization and the purposes specified in its articles of incorporation (or comparable document for an unincorporated association) or bylaws and perhaps limits resulting from contractual agreements—for example, loan covenants—entered into by the organization in the course of its operations.

Donor-Imposed Restrictions

95. The three classes of net assets reflect differences in, or absence of, donor-imposed restrictions on a not-for-profit organization's use of its assets. Thus, *restriction* and *restricted* in this Statement refer to limits placed on a not-for-profit organization's use of assets by donors' stipulations that are more specific than broad limits resulting from the nature of the organization and the purposes specified in its articles of incorporation (or comparable document for an unincorporated association) or bylaws. Restrictions generally do not create liabilities (paragraphs 56-58), but they do restrain the organization from using part of its resources for purposes other than those specified, for example, to settle liabilities, purchase goods, or provide services not within the scope of the restrictions.

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96. Donors need not explicitly limit uses of contributed assets for a not-for-profit organization to classify the increase in net assets as restricted if circumstances surrounding those receipts make clear the donor's implicit stipulation of restricted use. For example, use of contributed assets is restricted despite absence of a donor's explicit stipulation about use if the assets are received in a fund-raising drive declared to be for a specific purpose, such as to add to the organization's endowment, to acquire a particular property, or to obtain resources for next year's operations.

97. Only donors' explicit, or clearly evident implicit, stipulations that limit a not-for-profit organization's use of its assets can result in permanently or temporarily restricted net assets (as this Statement uses those terms). Decisions, resolutions, appropriations, or the like by the directors, trustees, or managers of a not-for-profit organization may impose seemingly similar limits on the use of net assets that were not stipulated by donors. However, unless limits are imposed by donors' stipulations that place them beyond the organization's discretion to change, they differ substantively from donor-imposed limits that result in restricted net assets. For example, a voluntary resolution by the trustees of an organization to earmark a portion of its unrestricted net

assets to function as an endowment is a revocable internal designation that does not give rise to restricted net assets. Only in the relatively few instances in which self-imposed limits become legally irrevocable are they substantively equivalent to donor-imposed restrictions and the cause of restricted net assets.

Temporary and Permanent Restrictions

98. Contributions (or other enhancements) of assets with donor-imposed limits on their use increase assets and net assets of a not-for-profit organization in the period in which it receives them, but they do not increase unrestricted net assets, nor are they generally available for payment to creditors, as long as the restriction remains. Donor-imposed restrictions on use of assets may be either temporary or permanent.

99. Some donors stipulate that their contributions be used in a later period or after a specified date rather than be expended immediately; those are often called time restrictions. Other donors stipulate that their contributions be used for a specified purpose, such as sponsoring a particular program or service, acquiring a particular building, or settling a particular liability; those are often called purpose restrictions. Time and purpose restrictions have in common that they can be satisfied, either by passage of time or by actions of the organization, and that the contributed assets can be expended. Those restrictions are temporary. Once the stipulation is satisfied, the restriction is gone.

100. Still other donors stipulate that resources be maintained permanently—not used up, expended, or otherwise exhausted—but permit the organization to use up or expend the income (or other economic benefits) derived from the donated assets. That type of restricted gift is often called an endowment. The restriction lasts in effect forever. It cannot be removed by actions of the organization or passage of time. The donations do not increase the organization's unrestricted net assets in any period, and the donated assets are not available for payment to creditors.

Restrictions Affect Net Assets Rather Than Particular Assets

101. Restrictions impose responsibilities on management to ensure that the organization uses donated resources in the manner stipulated by resource providers. Sometimes donor-imposed
restrictions limit an organization's ability to sell or exchange the particular asset received. For example, a donor may give a painting to a museum stipulating that it must be publicly displayed, properly maintained, and never sold.

102. More commonly, donors' stipulations permit the organization to pool the donated assets with other assets and to sell or exchange the donated assets for other suitable assets as long as the economic benefits of the donated assets are not consumed or used for a purpose that does not comply with the stipulation. For example, a donor may contribute 100 shares of Security A to an organization's endowment, thereby requiring that the amount of the gift be retained permanently but not requiring that the specific shares be held indefinitely. Thus, permanently restricted net assets and temporarily restricted net assets generally refer to amounts of net assets that are restricted by donor-imposed limits, not to specific assets.

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Maintenance of Net Assets

103. Although not-for-profit organizations do not have ownership interests or profit in the same sense as business enterprises, they nonetheless need a concept of capital maintenance or its equivalent to reflect "the relation between inflows and outflows of resources during a period." The activities of an organization during a period may draw upon resources received in past periods or may add resources that can be used in future periods.

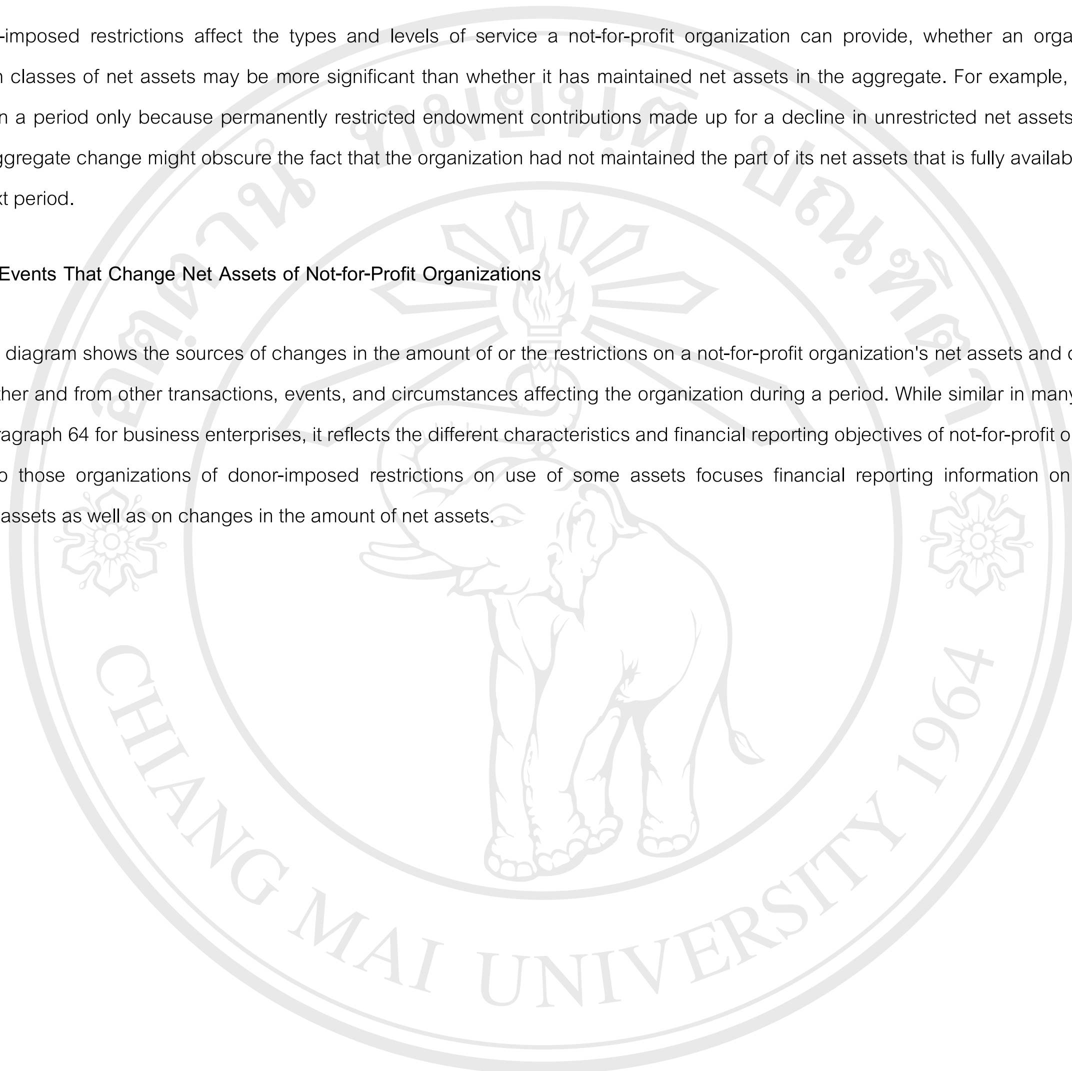
104. Unless a not-for-profit organization maintains its net assets, its ability to continue to provide services dwindles; either future resource providers must make up the deficiency or services to future beneficiaries will decline. For example, use of an asset such as a building to provide goods or services to beneficiaries consumes part of the future economic benefits or service potential constituting the asset, and that decrease in future economic benefits is one of the costs (expenses) of using the asset for that purpose. The organization's net assets decrease as it uses up an asset unless its revenues and gains at least equal its expenses and losses, including the cost of consuming part of the asset during the period (depreciation). Even if that organization plans to replace the asset through future contributions from donors, and probably will be able to do so, it has not maintained its net assets during the current period.

105. Maintenance of net assets in not-for-profit organizations, as in business enterprises (paragraph 72), is based on the maintenance of financial capital—that is, a not-for-profit organization's capital has been maintained if the financial (money) amount of its net assets at the end of a period equals or exceeds the financial amount of its net assets at the beginning of the period.

106. Since donor-imposed restrictions affect the types and levels of service a not-for-profit organization can provide, whether an organization has maintained certain classes of net assets may be more significant than whether it has maintained net assets in the aggregate. For example, if net assets were maintained in a period only because permanently restricted endowment contributions made up for a decline in unrestricted net assets, information focusing on the aggregate change might obscure the fact that the organization had not maintained the part of its net assets that is fully available to support services in the next period.

Transactions and Events That Change Net Assets of Not-for-Profit Organizations

107. The following diagram shows the sources of changes in the amount of or the restrictions on a not-for-profit organization's net assets and distinguishes them from each other and from other transactions, events, and circumstances affecting the organization during a period. While similar in many respects to the diagram in paragraph 64 for business enterprises, it reflects the different characteristics and financial reporting objectives of not-for-profit organizations. The importance to those organizations of donor-imposed restrictions on use of some assets focuses financial reporting information on changes in restrictions on net assets as well as on changes in the amount of net assets.



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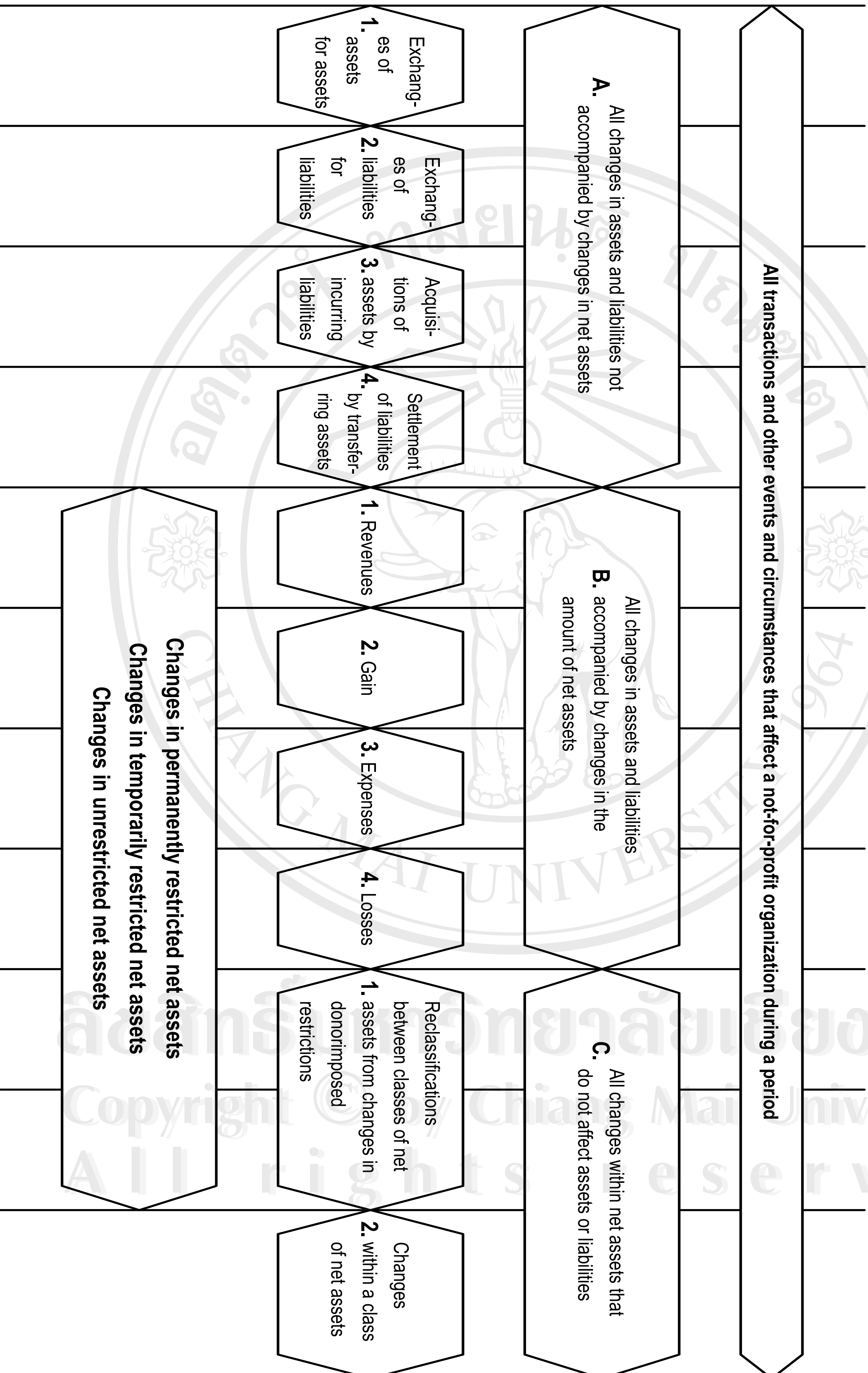

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108. The full width of the diagram, represented by the two-pointed arrow labeled "All transactions and other events and circumstances that affect a not-for-profit organization during a period," encompasses all potentially recordable events and circumstances affecting a not-for-profit organization. [This diagram

has been deleted in the electronic version of Original Pronouncements. If there is a need to reference this diagram, please refer to the printed version of Original Pronouncements.] Moving down the diagram, the next level is divided into three mutually exclusive classes that are the same as those of business enterprises (classes A, B, and C). Continuing down the diagram, however, classes B and C are divided differently from classes B and C in the business-enterprise diagram because not-for-profit organizations have no owners or transactions with owners in the same sense as business enterprises and because restrictions on net assets and changes in the restrictions are significant in not-for-profit organizations. (Size of classes does not indicate their relative volume or significance.)

A. All changes in assets and liabilities not accompanied by changes in net assets. This class comprises four kinds of exchange transactions that are common in most entities; paragraph 65 includes examples. (Exchanges that affect the amount of net assets belong in class B rather than A.)
   1. Exchanges of assets for assets
   2. Exchanges of liabilities for liabilities
   3. Acquisitions of assets by incurring liabilities
   4. Settlements of liabilities by transferring assets

B. All changes in assets or liabilities accompanied by changes in the amount of net assets. This class comprises four kinds of items that also exist for business enterprises:
   1. Revenues
   2. Gains
   3. Expenses
   4. Losses

C. All changes within net assets that do not affect assets or liabilities.
   1. Reclassifications between classes of net assets from changes in donor-imposed restrictions, for example, temporarily restricted net assets become unrestricted net assets when a donor-imposed time stipulation expires. This class comprises events that increase one class of net assets while decreasing another but do not change the amount of net assets.
   2. Changes within a class of net assets, for example, an internal designation by trustees to establish a working capital reserve from a portion of the entity's unrestricted net assets.

109. The shaded arrow that is divided horizontally into three classes—change in permanently restricted net assets, change in temporarily restricted net assets, and change in unrestricted net assets—encompasses all transactions and other events and circumstances that change either the amount of net assets or the donor-imposed restrictions on net assets. It thus encompasses the transactions and other events and circumstances that comprise class B (revenues, expenses, gains, losses), and class C1 (reclassifications), combined.

110. In other words, the third and fourth levels of the diagram show in two different ways the same set of transactions and other events and circumstances affecting net assets of a not-for-profit organization and the composition of its three classes during a period. The third level emphasizes sources of changes in net assets—transactions or other events that result in revenues, expenses, gains, or losses or in reclassifications within net assets. The fourth level emphasizes the effects of those events on each of the three classes of net assets—permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets. The components of class B—revenues, expenses, gains, and losses—are discussed collectively in paragraphs 111-113; reclassifications (class C1) are defined and discussed in paragraphs 114-116; and changes in classes of net assets (the fourth level) are defined and discussed in paragraphs 117-133.

Revenues, Expenses, Gains, and Losses

111. Revenues, expenses, gains, and losses are defined and discussed in paragraphs 78-89. Collectively, they include all transactions and other events and circumstances that change the amount of net assets of a not-for-profit organization. All resource inflows and other enhancements of assets of a not-for-profit organization or settlements of its liabilities that increase net assets are either revenues or gains and have characteristics similar to the revenues or gains of a business enterprise. Likewise, all resource outflows or other using up of assets or incurrences of liabilities that decrease net assets are either expenses or losses and have characteristics similar to expenses or losses of business enterprises.

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112. Net assets of a not-for-profit organization changes as a result of (a) exchange transactions, (b) contributions and other nonreciprocal transfers from or to and other entities, (c) the organization's service-providing efforts, and (d) price changes, casualties, and other effects of interactions between the organization and the economic, legal, social, political, and physical environment of which it is a part.

113. A not-for-profit organization's service-providing efforts, most of its fund-raising activities, and most of its exchange transactions with other entities are generally ongoing major activities that constitute the organization's central operations by which it attempts to fulfill its basic function of providing goods or services to its constituency and thus are the sources of its revenues and expenses. Its gains and losses result from activities that are peripheral or incidental to its central operations and from interactions with its environment, which give rise to price changes, casualties, and other effects that may be partly or wholly beyond the control of individual organizations and their managements. Items that are revenues (or expenses) for one kind of organization may be gains (or losses) for another. For example, donors' contributions are revenues to many not-for-profit organizations but are gains to others that do not actively seek them and receive them only occasionally. Similarly, contributions such as those for endowments are usually gains because they occur only occasionally for most not-for-profit organizations.

Reclassifications

114. Reclassifications between classes of net assets result from donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations. Reclassifications simultaneously increase one class and decrease another class of net assets; they do not involve inflows, outflows, or other changes in assets or liabilities.

115. Reclassifications include events that remove or impose restrictions on an organization's use of its existing resources. Restrictions are removed from temporarily restricted net assets when stipulated conditions expire or are fulfilled by the organization. Time-restricted net assets generally become unrestricted when the stipulated time arrives; for example, net assets that are restricted by contribution of assets during 1985 for use in 1986 become unrestricted on January 1, 1986. Purpose-restricted net assets generally become unrestricted when the organization undertakes activities pursuant to the specified purpose, perhaps over several periods, depending on the nature of donors' stipulations. The resulting reclassifications increase unrestricted net assets, often at the same time that the activities that remove the restrictions result in expenses that decrease unrestricted net assets (paragraphs 151 and 152). Temporarily restricted net assets may become unrestricted when an organization incurs liabilities to vendors or employees as it undertakes the activities required by donor stipulations, rather than at the time those liabilities are paid. Restrictions occasionally may be withdrawn by the donor or removed by judicial action.

116. A donor's gift may impose restrictions on otherwise unrestricted net assets. For example, some donors provide endowment gifts on the condition that the organization agree to "match" them by permanently restricting a stated amount of its unrestricted net assets. "Matching agreements" that are not reversible without donors' consent result in a reclassification of unrestricted net assets to permanently restricted net assets or to temporarily restricted net assets.

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Changes in Classes of Net Assets of Not-for-Profit Organizations

117. Those who provide, or may provide, resources to a not-for-profit organization usually need information not only about sources of changes in its net assets—about transactions and other events that result in revenues, expenses, gains, and losses—but also about their effects, and the effects of events that change donor-imposed restrictions, on classes of net assets. Effects on classes of net assets often may be more significant to them than sources of changes because donor-imposed restrictions may significantly affect the types and levels of services that a not-for-profit organization can provide.

118. Events that result in reclassifications within net assets and revenues, expenses, gains, and losses together encompass the transactions and other events and circumstances that comprise change in permanently restricted net assets, change in temporarily restricted net assets, and change in unrestricted net assets (paragraphs 108-110).

Change in Permanently Restricted Net Assets

119. Change in permanently restricted net assets of a not-for-profit organization during a period is the total of (a) contributions and other inflows during the period of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization, (b) other asset enhancements and diminishments during the period that are subject to the same kinds of stipulations, and (c) reclassifications from (or to) other classes of net assets during the period as a consequence of donor-imposed stipulations.

Characteristics of Change in Permanently Restricted Net Assets

120. Most increases in permanently restricted net assets of a not-for-profit organization are from its accepting contributions of assets that donors stipulate must be maintained in perpetuity. Receipt of a contribution increases permanently restricted net assets if the donor stipulates that the resources received must be maintained permanently and those resources are capable of providing future economic benefit indefinitely. Only assets that are not by their nature used up in carrying out the organization's activities are capable of providing economic benefits indefinitely. Gifts of cash, securities, or nonexhaustible property, such as land and art objects, to be added to an organization's endowment or collections are common examples of those types of assets.

121. Donors' permanent restrictions on the use of contributed assets may also extend to enhancements of those assets or to inflows that result from them. For example, increases in the value of endowment investments that by donor stipulation or law become part of endowment principal also increase permanently restricted net assets. Events that diminish permanently restricted net assets may also occur. Examples include destruction of or damage to a permanently restricted work of art by fire, flood, or vandalism; decline in value of endowment investments that by donor stipulation or law reduces endowment principal; or external mandate (by judicial or similar authority) to transfer endowment securities to another organization.

122. Reclassifications also may increase the amount of permanently restricted net assets or occasionally decrease it (paragraphs 114-116).

Change in Temporarily Restricted Net Assets

123. Change in temporarily restricted net assets of a not-for-profit organization during a period is the total of (a) contributions and other inflows during the period of assets whose use by the organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the organization pursuant to those stipulations, (b) other asset enhancements and diminishments during the period subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets during the period as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

Characteristics of Change in Temporarily Restricted Net Assets

124. Most increases in temporarily restricted net assets of a not-for-profit organization are from its accepting contributions of assets that donors limit to use after a specified future time—for example, to be used for next year's operations or to be invested for 10 years before becoming available for operations—or for a specified purpose—for example, sponsoring a particular program activity or acquiring a particular building or piece of equipment. Temporary restrictions pertain to contributions with donor stipulations that expire or can be fulfilled and removed by using assets as specified. And, in contrast to permanent restrictions, which pertain to assets that can provide economic benefits indefinitely and must be maintained in perpetuity by the receiving organization, temporary restrictions pertain to assets that by their nature are spent or used up in carrying out the receiving organization's activities or, if capable of providing economic benefits indefinitely, need not be retained after a stipulated time.

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125. Donors' restrictions on the use of contributed assets may also extend to enhancements of those assets or to inflows that result from them. For example, if a donor stipulates that interest income derived from investment of contributed assets is limited to use after a specified date or for a specified operating purpose, the interest income is a restricted inflow that increases temporarily restricted net assets. Events that diminish temporarily restricted net assets, other than expirations and removals of restrictions (next paragraph), may also occur and are much like those that affect permanently restricted net assets (paragraph 121).

126. Reclassifications are the most common source of decreases in temporarily restricted net assets. Events resulting in the expiration or removal of temporary restrictions result in reclassifications from temporarily restricted net assets to unrestricted net assets.

Change in Unrestricted Net Assets

127. Change in unrestricted net assets of a not-for-profit organization during a period is the total change in net assets during the period less change in permanently restricted net assets and change in temporarily restricted net assets for the period. It is the change during the period in the part of net assets of a not-for-profit organization that is not limited by donor-imposed stipulations.

Characteristics of Change in Unrestricted Net Assets

128. Changes in unrestricted net assets include (a) revenues and gains that change unrestricted net assets, (b) expenses and losses that change unrestricted net assets, and (c) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of the organization pursuant to those stipulations.

129. Revenues and gains that increase unrestricted net assets of a not-for-profit organization have characteristics similar to those of revenues and gains of business enterprises. Those revenues and gains and the transactions that give rise to them are in many forms and are called by various names—for example, fees for services, membership dues, unrestricted gifts, or bequests, interest income, and gains on sales of marketable securities.

130. Expenses and losses that decrease unrestricted net assets of a not-for-profit organization have characteristics similar to those of expenses and losses of business enterprises. Except for diminishments of donor-restricted contributed assets that decrease either permanently restricted or temporarily restricted net assets, all types of transactions, other events, and circumstances that decrease net assets of an organization are expenses or losses that decrease unrestricted net assets (paragraphs 121 and 125). Those expenses and losses and the transactions that give rise to them are in many forms and are called by various names—for example, cost of services provided, cost of goods sold, salaries and wages, rent, supplies, interest expense, depreciation, flood damage, and gifts to other entities.

131. Reclassifications, although not changing the amount of net assets, may change the amount of unrestricted net assets. Reclassifications more commonly increase rather than decrease unrestricted net assets. Events resulting in the expiration or removal of temporary restrictions result in reclassifications from temporarily restricted net assets that increase unrestricted net assets.

132. A not-for-profit organization's activities that fulfill stipulated conditions and result in removing donor-imposed purpose restrictions on use of donated assets also commonly result in expenses that decrease unrestricted net assets. Activities undertaken pursuant to a specified purpose remove the related restriction, often as the organization pays cash or incurs liabilities to vendors or employees to carry out a stipulated activity (paragraph 115). Those transactions result in expenses either when cash is paid or liabilities are incurred or as the organization uses up assets acquired in the transactions.

133. Information about whether a not-for-profit organization has maintained particular classes of net assets may be more significant than whether it has maintained net assets in the aggregate (paragraph 106). Change in unrestricted net assets for a period indicates whether an organization has maintained the part of its net assets that is fully available—that is, free of donor-imposed restrictions—to support the organization's services to beneficiaries in the next period. The combined change in unrestricted net assets and change in temporarily restricted net assets for a period indicates whether an organization has maintained the part of its net assets that is now or can someday be available—that is, free of permanent restrictions—to support its services to beneficiaries in future periods.

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ACCRUAL ACCOUNTING AND RELATED CONCEPTS

134. Items that qualify under the definitions of elements of financial statements and that meet criteria for recognition and measurement (paragraph 23) are accounted for and included in financial statements by the use of accrual accounting procedures. Accrual accounting and related concepts are therefore significant not only for defining elements of financial statements but also for understanding and considering other aspects of the conceptual framework for financial accounting and reporting. Paragraphs 135-152 define or describe several significant financial accounting and reporting concepts that are used in this Statement and other concepts Statements.

Transactions, Events, and Circumstances

135. This Statement commonly uses *transactions and other events and circumstances affecting an entity* to describe the sources or causes of changes in assets, liabilities, and equity or net assets. An event is a happening of consequence to an entity. It may be an internal event that occurs within an entity, such as using raw

materials or equipment in production, or it may be an external event that involves interaction between an entity and its environment, such as a transaction with another entity, a change in price of a good or service that an entity buys or sells, a flood or earthquake, or an improvement in technology by a competitor. Many events are combinations. For example, acquiring services of employees or others involves exchange transactions, which are external events; using those services, often simultaneously with their acquisition, is part of production, which involves a series of internal events (paragraph 79, footnote 40). An event may be initiated by an entity, such as a purchase of merchandise or use of a building, or it may be partly or wholly beyond the control of an entity and its management, such as an interest rate change, an act of vandalism or theft, the imposition of taxes, or the expiration of a donor-imposed time restriction.

136. Circumstances are a condition or set of conditions that develop from an event or a series of events, which may occur almost imperceptibly and may converge in random or unexpected ways to create situations that might otherwise not have occurred and might not have been anticipated. To see the circumstance may be fairly easy, but to discern specifically when the event or events that caused it occurred may be difficult or impossible. For example, a debtor's going bankrupt or a thief's stealing gasoline may be an event, but a creditor's facing the situation that its debtor is bankrupt or a warehouse's facing the fact that its tank is empty may be a circumstance.

137. A transaction is a particular kind of external event, namely, an external event involving transfer of something of value (future economic benefit) between two (or more) entities. The transaction may be an exchange in which each participant both receives and sacrifices value, such as purchases or sales of goods or services; or the transaction may be a nonreciprocal transfer in which an entity incurs a liability or transfers an asset to another entity (or receives an asset or cancellation of a liability) without directly receiving (or giving) value in exchange. Nonreciprocal transfers contrast with exchanges (which are reciprocal transfers) and include, for example, investments by owners, distributions to owners, impositions of taxes, gifts, charitable or educational contributions given or received, and thefts.

138. This Statement does not use the term *internal transaction* (which is essentially contradictory). Transferring materials to production processes, using plant and equipment whose wear and tear is represented by depreciation, and other events that happen within an entity are internal events, not internal transactions.

Accrual Accounting

139. Accrual accounting attempts to record the financial effects on an entity of transactions and other events and circumstances that have cash consequences for the entity in the periods in which those transactions, events, and circumstances occur rather than only in the periods in which cash is received or paid by the entity. Accrual accounting is concerned with an entity's acquiring of goods and services and using them to produce and distribute other goods or services. It is concerned with the process by which cash expended on resources and activities is returned as more (or perhaps less) cash to the entity, not just with the beginning and end of that process. It recognizes that the buying, producing, selling, distributing, and other operations of an entity during a period, as well as other events that affect entity performance, often do not coincide with the cash receipts and payments of the period (FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, paragraph 44, and FASB Concepts Statement No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations*, paragraph 50).

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140. Thus, accrual accounting is based not only on cash transactions but also on credit transactions, barter exchanges, nonreciprocal transfers of goods or services, changes in prices, changes in form of assets or liabilities, and other transactions, events, and circumstances that have cash consequences for an entity but involve no concurrent cash movement. By accounting for noncash assets, liabilities, revenues, expenses, gains, and losses, accrual accounting links an entity's operations and other transactions, events, and circumstances that affect it with its cash receipts and outlays. Accrual accounting thus provides information about an entity's assets and liabilities and changes in them that cannot be obtained by accounting for only cash receipts and outlays.

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Accrual and Deferral (Including Allocation and Amortization)

141. Accrual accounting attempts to recognize noncash events and circumstances as they occur and involves not only accruals but also deferrals, including allocations and amortizations. Accrual is concerned with expected future cash receipts and payments: it is the accounting process of recognizing assets or liabilities and the related liabilities, assets, revenues, expenses, gains, or losses for amounts expected to be received or paid, usually in cash, in the future. Deferral is concerned with past cash receipts and payments—with prepayments received (often described as collected in advance) or paid: it is the accounting process of recognizing a liability resulting from a current cash receipt (or the equivalent) or an asset resulting from a current cash payment (or the equivalent) with deferred recognition of revenues, expenses, gains, or losses. Their recognition is deferred until the obligation underlying the liability is partly or wholly satisfied or until the future economic benefit underlying the asset is partly or wholly used or lost. Common examples of accruals include purchases and sales of goods or

services on account, interest, rent (not yet paid), wages and salaries, taxes, and decreases and increases in marketable securities accounted for at lower of cost and market. Common examples of deferrals include prepaid insurance and unearned subscriptions.

142. Allocation is the accounting process of assigning or distributing an amount according to a plan or a formula. It is broader than and includes amortization, which is the accounting process of reducing an amount by periodic payments or write-downs. Specifically, amortization is the process of reducing a liability recorded as a result of a cash receipt by recognizing revenues or reducing an asset recorded as a result of a cash payment by recognizing expenses or costs of production. That is, amortization is an allocation process for accounting for prepayments and deferrals. Common examples of allocations include assigning manufacturing costs to production departments or cost centers and thence to units of product to determine "product cost," apportioning the cost of a "basket purchase" to the individual assets acquired on the basis of their relative market values, and spreading the cost of an insurance policy or a building to two or more accounting periods. Common examples of amortizations include recognizing expenses for depreciation, depletion, and insurance and recognizing earned subscription revenues.

Realization and Recognition

143. Realization in the most precise sense means the process of converting noncash resources and rights into money and is most precisely used in accounting and financial reporting to refer to sales of assets for cash or claims to cash. The related terms *realized* and *unrealized* therefore identify revenues or gains or losses on assets sold and unsold, respectively. Those are the meanings of realization and related terms in the Board's conceptual framework. Recognition is the process of formally recording or incorporating an item in the financial statements of an entity. Thus, an asset, liability, revenue, expense, gain, or loss may be recognized (recorded) or unrecognized (unrecorded). *Realization* and *recognition* are not used as synonyms, as they sometimes are in accounting and financial literature.

Recognition, Matching, and Allocation

144. Accrual accounting recognizes numerous noncash assets, liabilities, and transactions and other events that affect them (paragraphs 139-141). Thus, a major difference between accrual accounting and accounting based on cash receipts and outlays is timing of recognition of revenues, expenses, gains, and losses. Investments by an entity in goods and services for its operations or other activities commonly do not all occur in the same period as revenues or other proceeds from selling the resulting products or providing the resulting services. Several periods may elapse between the time cash is invested in raw materials or plant, for example, and the time cash is returned by collecting the sales price of products from customers. A report showing cash receipts and cash outlays of an enterprise for a short period cannot indicate how much of the cash received is return *of* investment and how much is return on investment and thus cannot indicate whether or to what extent an enterprise is successful or unsuccessful. Similarly, goods or services that a not-for-profit organization provides gratis to beneficiaries commonly result from using goods or services acquired with cash received and spent in earlier periods. A report showing cash receipts and outlays of the organization for a short period cannot tell much about the relation of goods or services provided to the resources used to provide them and thus cannot indicate whether or to what extent an organization is successful or unsuccessful in carrying out its service objectives. Cash receipts in a particular period may largely reflect the effects of activities of a business enterprise or a not-for-profit organization in earlier periods, while many of the cash outlays may relate to its activities and efforts expected in future periods.

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145. Accrual accounting uses accrual, deferral, and allocation procedures whose goal is to relate revenues, expenses, gains, and losses to periods to reflect an entity's performance during a period instead of merely listing its cash receipts and outlays. Thus, recognition of revenues, expenses, gains, and losses and the related increments or decrements in assets and liabilities—including matching of costs and revenues, allocation, and amortization—is the essence of using accrual accounting to measure performance of entities. The goal of accrual accounting is to account in the periods in which they occur for the effects on an entity of transactions and other events and circumstances, to the extent that those financial effects are recognizable and measurable.

146. Matching of costs and revenues is simultaneous or combined recognition of the revenues and expenses that result directly and jointly from the same transactions or other events. In most entities, some transactions or events result simultaneously in both a revenue and one or more expenses. The revenue and expense(s) are directly related to each other and require recognition at the same time. In present practice, for example, a sale of product or merchandise involves both revenue (sales revenue) for receipt of cash or a receivable and expense (cost of goods sold) for sacrifice of the product or merchandise sold to customers. Other examples of expenses that may result from the same transaction and be directly related to sales revenues are transportation to customers, sales commissions, and perhaps certain other selling costs.

147. Many expenses, however, are not related directly to particular revenues but can be related to a period on the basis of transactions or events occurring in that period or by allocation. Recognition of those expenses is largely independent of recognition of particular revenues, but they are deducted from particular revenues by being recognized in the same period.

148. Some costs that cannot be directly related to particular revenues are incurred to obtain benefits that are exhausted in the period in which the costs are incurred. For example, salesmen's monthly salaries and electricity used to light an office building usually fit that description and are usually recognized as expenses in the period in which they are incurred. Other costs are also recognized as expenses in the period in which they are incurred because the period to which they otherwise relate is indeterminable or not worth the effort to determine.

149. However, many assets yield their benefits to an entity over several periods, for example, prepaid insurance, buildings, and various kinds of equipment. Expenses resulting from their use are normally allocated to the periods of their estimated useful lives (the periods over which they are expected to provide benefits) by a "systematic and rational" allocation procedure, for example, by recognizing depreciation or other amortization. Although the purpose of expense allocation is the same as that of other expense recognition—to reflect the using up of assets as a result of transactions or other events or circumstances affecting an entity—allocation is applied if causal relations are generally, but not specifically, identified. For example, wear and tear from use is known to be a major cause of the expense called depreciation, but the amount of depreciation caused by wear and tear in a period normally cannot be measured. Those expenses are not related directly to either specific revenues or particular periods. Usually no traceable relationship exists, and they are recognized by allocating costs to periods in which assets are expected to be used and are related only indirectly to the revenues that are recognized in the same period.

150. Some revenues and gains result from nonreciprocal transfers to an entity from other entities and thus relate to the period in which cash or other assets are received by the entity, or in which its liabilities are reduced. Recognition of those nonreciprocal transfers seldom involves allocation or matching procedures. For example, not-for-profit organizations commonly receive donations in cash, and timing of cash receipts is normally readily verifiable. Similarly, receipts of other assets, including receivables (promises by another entity to pay cash or transfer other assets), or of reductions or remissions of liabilities are also usually readily identifiable with the periods in which they occur, and there is nothing to allocate to other periods.

151. Nonreciprocal transfers to an entity rarely result directly and jointly from the same transactions as expenses. Most contributions and expenses are much more closely related to time periods than to each other. For example, the receipt by a not-for-profit organization of contributed assets that involve donor stipulations restricting their use to particular types of services may be a cause of the expenses incurred in providing those services; however, the receipt of contributed assets—revenues or gains—and the subsequent incurring of liabilities or reduction of assets in providing services—expenses—are separate events recognized in the periods in which they occur.

152. Removal of restrictions on temporarily restricted net assets of a not-for-profit organization is an event that often occurs at the same time as the incurring of particular expenses. The discussion of donor-imposed restrictions in this Statement contemplates that removals of restrictions on net assets—reclassifications—may be shown in financial statements in the same period(s) as the activities that remove the restrictions.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman* | Raymond C. Lauver | Robert T. Sprouse
Frank E. Block | David Mosso | Arthur R. Wyatt
Victor H. Brown

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Statement of Financial Accounting Concepts No. 7

Using Cash Flow Information and Present Value in Accounting Measurements

CON7 Status

Issued: February 2000

Affects: No other pronouncements

Affected by: No other pronouncements

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Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

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CON 7 HIGHLIGHTS

[Best understood in context of full Statement]

- Most accounting measurements use an observable marketplace-determined amount, like cash received or paid, current cost, or current market value. However, accountants quite often must use estimated future cash flows as a basis for measuring an asset or a liability. This Statement provides a framework for using future cash flows as the basis for accounting measurements at initial recognition or fresh-start measurements and for the interest method of amortization. It provides general principles that govern the use of present value, especially when the amount of future cash flows, their timing, or both are uncertain. It also provides a common understanding of the objective of present value in accounting measurements.

- The Board decided to limit this Statement to measurement issues and not to address recognition questions. The Board also decided that this Statement will not specify when fresh-start measurements are appropriate. The Board expects to decide whether a particular situation requires a fresh-start measurement or some other accounting response on a project-by-project basis.

- The objective of using present value in an accounting measurement is to capture, to the extent possible, the economic difference between sets of estimated future cash flows. Without present value, a $1,000 cash flow due tomorrow and a $1,000 cash flow due in 10 years appear the same. Because present value distinguishes between cash flows that might otherwise appear similar, a measurement based on the present value of estimated future cash flows provides more relevant information than a measurement based on the undiscounted sum of those cash flows.

- To provide relevant information in financial reporting, present value must represent some observable measurement attribute of assets or liabilities. In the absence of observed transaction prices, accounting measurements at initial recognition and fresh-start measurements should attempt to capture the elements that taken together would comprise a market price if one existed, that is, fair value. While the expectations of an entity's management are often useful and informative, the marketplace is the final arbiter of asset and liability values. Moreover, the entity must pay the market's price when it acquires an asset or settles a liability in a current transaction, regardless of its intentions or expectations. Nevertheless, for some assets and liabilities, management's estimates may be the only available information. In such cases, the objective is to estimate the price likely to exist in the marketplace, if there were a marketplace.

- An accounting measurement that uses present value should reflect the uncertainties inherent in the estimated cash flows; otherwise, items with different risks may appear similar. This Statement describes the effect of uncertainties about the amount and timing of estimated future cash flows on the measurement of an asset or a liability.

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- Accounting applications of present value have typically used a single set of estimated cash flows and a single interest rate. This Statement introduces the expected cash flow approach, which differs from the traditional approach by focusing on explicit assumptions about the range of possible estimated cash flows and their respective probabilities. In contrast, the traditional approach treats those uncertainties implicitly in the selection of an interest rate. By incorporating a range of possible outcomes, the expected cash flow approach accommodates the use of present value techniques when the timing of cash flows is uncertain.

- The measurement of liabilities involves different problems from the measurement of assets; however, the underlying objective is the same. This Statement describes techniques for estimating the fair value of liabilities.

- This Statement also examines the role of the entity's credit standing in measurements of its liabilities at initial recognition and fresh-start measurements. It explains the Board's conclusion that the most relevant measurement of an entity's liabilities should always reflect the credit standing of the entity.

- This Statement describes the factors that, if present, typically suggest that an interest method of allocation should be considered. It also describes the factors that must be considered in implementing that amortization method.
- While this Statement does not address the circumstances that would prompt a fresh-start measurement, it does address the accounting for a change in the estimated amount or timing of future cash flows. If the timing or amount of estimated cash flows changes, and the item is not subject to a fresh-start measure, the interest method of allocation should be altered by a catch-up approach that adjusts the carrying amount to the present value of the revised estimated future cash flows, discounted at the original effective interest rate.

Statements of Financial Accounting Concepts

This Statement of Financial Accounting Concepts is one of a series of publications in the Board's conceptual framework for financial accounting and reporting. Statements in the series are intended to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards. The objectives identify the goals and purposes of financial reporting. The fundamentals are the underlying concepts of financial accounting—concepts that guide the selection of transactions, events, and circumstances to be accounted for; their recognition and measurement; and the means of summarizing and communicating them to interested parties. Concepts of that type are fundamental in the sense that other concepts flow from them and repeated reference to them will be necessary in establishing, interpreting, and applying accounting and reporting standards.

The conceptual framework is a coherent system of interrelated objectives and fundamentals that is expected to lead to consistent standards and that prescribes the nature, function, and limits of financial accounting and reporting. It is expected to serve the public interest by providing structure and direction to financial accounting and reporting to facilitate the provision of evenhanded financial and related information that helps promote the efficient allocation of scarce resources in the economy and society, including assisting capital and other markets to function efficiently.

Establishment of objectives and identification of fundamental concepts will not directly solve financial accounting and reporting problems. Rather, objectives give direction, and concepts are tools for solving problems.

The Board itself is likely to be the most direct beneficiary of the guidance provided by the Statements in this series. They will guide the Board in developing accounting and reporting standards by providing the Board with a common foundation and basic reasoning on which to consider merits of alternatives.

However, knowledge of the objectives and concepts the Board will use in developing standards also should enable those who are affected by or interested in financial accounting standards to understand better the purposes, content, and characteristics of information provided by financial accounting and reporting. That knowledge is expected to enhance the usefulness of, and confidence in, financial accounting and reporting. The concepts also may provide some guidance in analyzing new or emerging problems of financial accounting and reporting in the absence of applicable authoritative pronouncements.

Statements of Financial Accounting Concepts do not establish standards prescribing accounting procedures or disclosure practices for particular items or events, which are issued by the Board as Statements of Financial Accounting Standards. Rather, Statements in this series describe concepts and

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relations that will underlie future financial accounting standards and practices and in due course serve as a basis for evaluating existing standards and practices.

The Board recognizes that in certain respects current generally accepted accounting principles may be inconsistent with those that may derive from the objectives and concepts set forth in Statements in this series. However, a Statement of Financial Accounting Concepts does not (a) require a change in existing generally accepted accounting principles; (b) amend, modify, or interpret Statements of Financial Accounting Standards, Interpretations of the FASB, Opinions of the Accounting Principles Board, or Bulletins of the Committee on Accounting Procedure that are in effect; or (c) justify either changing existing generally accepted accounting and reporting practices or interpreting the pronouncements listed in item (b) based on personal interpretations of the objectives and concepts in the Statements of Financial Accounting Concepts.

Because a Statement of Financial Accounting Concepts does not establish generally accepted accounting principles or standards for the disclosure of financial information outside of financial statements in published financial reports, it is not intended to invoke application of Rule 203 or 204 of the Rules of Conduct of the Code of Professional Ethics of the American Institute of Certified Public Accountants (or successor rules or arrangements of similar scope and intent).

Like other pronouncements of the Board, a Statement of Financial Accounting Concepts may be amended, superseded, or withdrawn by appropriate action under the Board's *Rules of Procedure*.

GLOSSARY OF TERMS

Best estimate

The single most-likely amount in a range of possible estimated amounts; in statistics, the estimated mode. In the past, accounting pronouncements have used the term *best estimate* in a variety of contexts that range in meaning from "unbiased" to "most likely." This Statement uses *best estimate* in the latter meaning, as distinguished from the expected amounts described below.

Estimated cash flow and expected cash flow

In the past, accounting pronouncements have used the terms *estimated cash flow* and *expected cash flow* interchangeably. In this Statement: *Estimated cash flow* refers to a single amount to be received or paid in the future. *Expected cash flow* refers to the sum of probability-weighted amounts in a range of possible estimated amounts; the estimated mean or average.

Fair value of an asset (or liability)

The amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fresh-start measurements

Measurements in periods following initial recognition that establish a new carrying amount unrelated to previous amounts and accounting conventions. Some fresh-start measurements are used every period, as in the reporting of some marketable securities at fair value under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. In other situations, fresh-start measurements are prompted by an exception or "trigger," as in a remeasurement of assets under FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

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Interest methods of allocation

Reporting conventions that use present value techniques in the absence of a fresh-start measurement to compute changes in the carrying amount of an asset or liability from one period to the next. Like depreciation and amortization conventions, interest methods are grounded in notions of historical cost. The term *interest methods of allocation* refers both to the convention for periodic reporting and to the several approaches to dealing with changes in estimated future cash flows.

Present value and expected present value

The current measure of an estimated future cash inflow or outflow, discounted at an interest rate for the number of periods between today and the date of the estimated cash flow. The present value of $X due n periods in the future and discounted at an interest rate of i per period is computed using the formula:

$$X/(1 + i)n$$

Expected present value refers to the sum of probability-weighted present values in a range of estimated cash flows, all discounted using the same interest rate convention.

INTRODUCTION

1. Most accounting measurements use an observable marketplace-determined amount—cash or the value of other assets received or paid, current cost, or current market value. Observable marketplace amounts are generally more reliable and are more efficiently determined than measurements that must employ estimates of future cash flows. When observable amounts are not available, accountants often turn to **estimated cash flows** to determine the carrying amount of an asset or a liability. Those cash flows usually occur in one or more future periods, prompting questions about whether the accounting measurement should reflect the **present value** or the undiscounted sum of those cash flows. The Board and its predecessors have been reluctant to extend the use of present value techniques without a framework for their use. For example, in paragraph 6 of APB Opinion No. 10, *Omnibus Opinion—1966,* the Accounting Principles Board observed:

> Pending further consideration of this subject and the broader aspects of discounting as it is related to financial accounting in general and until the Board reaches a conclusion on this subject, it is the Board's opinion that, except for applications existing on the exposure date of this Opinion (September 26, 1966) with respect to transactions consummated prior to that date, deferred taxes should not be accounted for on a discounted basis.

2. In October 1988, the Board began a project to consider the broader aspects of present value in accounting measurements. Several accounting pronouncements that followed Opinion 10 used present value techniques, with considerable variation among those applications. Other pronouncements might have used present value techniques but did not. In adding this project to its agenda, the Board sought to better explain when present value is an appropriate measurement tool and how that tool should be used.

3. In December 1990, the Board issued a Discussion Memorandum, *Present Value-Based Measurements in Accounting*. The Discussion Memorandum identified three approaches for the project. The Board might:

a. Decide that no further steps are necessary
b. Identify specific areas in which new or amended accounting pronouncements are necessary
c. Develop a new FASB Statement of Financial Accounting Concepts.

4. The Board issued 32 Statements of Financial Accounting Standards between December 1990 and December 1999. Of those Statements, 15 addressed recognition and measurement issues and 11 addressed the use of present value techniques. In its deliberation of those pronouncements and its work on this Statement, the Board became aware that descriptions of measurement attributes in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises,* were inadequate in determining when and how to use present value in accounting measurements.

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5. Paragraph 67 of Concepts Statement 5 describes five measurement attributes used in financial statements:

a. Historical cost (historical proceeds)
b. Current cost
c. Current market value
d. Net realizable (settlement) value
e. Present (or discounted) value of future cash flows.

6. The discussion in Concepts Statement 5 of three of those attributes (current cost, current market value, and net realizable value) focuses on measurements at initial recognition and **fresh-start measurements** in subsequent periods. The discussion of the historical cost attribute focuses on measurement at initial recognition and subsequent amortization or allocation. The present value measurement attribute described in Concepts Statement 5 is an amortization method that could be applied after an asset or liability is recognized and measured using historical cost, current cost, or current market value.

7. In recent years, the Board has identified **fair value** as the objective for most measurements at initial recognition and fresh-start measurements in subsequent periods. Concepts Statement 5 does not use the term fair value. However, some of the measurement attributes described in Concepts Statement 5 may be consistent with fair value. At initial recognition, the cash or equivalent amount paid or received (historical cost or proceeds) is usually assumed to approximate fair value, absent evidence to the contrary. Current cost and current market value both fall within the definition of fair value. Net realizable value and present value, as described in Concepts Statement 5, are not consistent with fair value.

8. In February 1996, the Board issued an FASB Special Report, *The FASB Project on Present Value Based Measurements, an Analysis of Deliberations and Techniques*. The Special Report analyzed:

a. Responses to the 1990 Discussion Memorandum and subsequent Board deliberations
b. How the Board dealt with present value in other projects
c. Techniques for thinking about present value problems that use an **expected cash flow** approach
d. Issues raised by the **interest method of allocation**.

9. In June 1997, the Board issued an Exposure Draft of a Proposed Statement of Financial Accounting Concepts, *Using Cash Flow Information in Accounting Measurements.* After considering comments received and redeliberating the provisions of that Exposure Draft, the Board changed its conclusions about the objective of present value in accounting measurement and the role of an entity's credit standing in the measurement of its liabilities. Those changes were deemed sufficient to warrant reexposure and in March 1999, the Board issued a second Exposure Draft, *Using Cash Flow Information and Present Value in Accounting Measurements.*

10. The Board's counterparts in other countries also are examining measurement questions that center on using information about estimated future cash flows and present value. In April 1997, the United Kingdom's Accounting Standards Board (UK ASB) published a working paper, *Discounting in Financial Reporting*. A working group representing accounting standard setters from Australia, Canada, New Zealand, the United Kingdom, the International Accounting Standards Committee (IASC), and the United States (commonly known as the G4+1) has discussed present value issues on several occasions. International Accounting Standard 37, *Provisions, Contingent Liabilities and Contingent Assets,* makes extensive use of present value techniques. In 1998, the IASC added a project on present value to its agenda. However, the Board is not aware of any accounting standard setter that has incorporated the objectives and conceptual basis for using present value techniques in financial accounting measurement in its conceptual framework.

11. This Statement provides a framework for using future cash flows as the basis for an accounting measurement. The framework:

a. Describes the objective of present value in accounting measurements
b. Provides general principles governing the use of present value, especially when the amount of future cash flows, their timing, or both are uncertain.

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12. This Statement addresses measurement issues and does not address recognition questions. Paragraph 6 of Concepts Statement 5 defines *recognition* in the following terms:

> Recognition is the process of formally recording or incorporating an item into the financial statements of an entity as an asset, liability, revenue, expense, or the like. Recognition includes depiction of an item in both words and numbers, with the amount included in the totals of the financial statements. For an asset or liability, recognition involves recording not only acquisition or incurrence of the item but also later changes in it, including changes that result in removal from the financial statements. [Footnote reference omitted.]

13. While the Board decided that its work on present value should focus on measurement, leaving recognition questions for other projects, it observes that recognition and measurement are related to one another. For example, a decision to change the measurement attribute (for example, a change from amortized cost to fair value) also raises recognition questions. In some cases, a measurement governs whether or not a change in the carrying amount will be recognized and provides the basis for the subsequent carrying amount. Lower-of-cost-or-market rules are one example. However, the convention that governs recognition and the measurement attribute need not be the same. For example, FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* uses a recognition convention based on undiscounted cash flows. The measurement of impairment is based on fair value.

14. This Statement does not specify when fresh-start measurements are appropriate. Accountants frequently face situations in which a change in an asset or liability can be recognized by either a fresh-start measurement or an adjustment to the existing amortization convention. The events and circumstances that prompt a fresh-start measurement vary from one situation to the next, and information about estimated future cash flows is sometimes part of the remeasurement determination. The Board expects to decide whether a particular situation requires fresh-start measurement or some other accounting response on a project-by-project basis.

15. The conclusions reached in this Statement apply only to measurements at initial recognition, fresh-start measurements, and amortization techniques based on future cash flows. This Statement does not apply to measurements based on the amount of cash or other assets paid or received or on observation of fair values in the marketplace. If such transactions or observations are present, the measurement would be based on them, not on future cash flows.

16. Statements of Financial Accounting Concepts are intended to set forth objectives and fundamentals that will be the basis for development of financial accounting and reporting standards. It is not surprising that parts of this and other Concepts Statements conflict with some of the specific accounting standards issued in the past. Those standards were developed over several decades. Individual standards usually address specific problems and reflect the compromises and technological limitations of their time. Appendix B outlines 21 instances in which the Board and its predecessors have used present value techniques in measuring assets and liabilities recognized in financial statements. A review of other accounting guidance reveals many more, along with situations in which present value techniques could have been used but were not. The Board does not intend to revisit existing accounting standards and practice solely as a result of issuing this Statement. Instead, it will use this Statement in developing future accounting standards as issues arise and are added to the Board's technical agenda.

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PRESENT VALUE AT INITIAL RECOGNITION OR IN FRESH-START ACCOUNTING MEASUREMENT

17. If a price for an asset or liability or an essentially similar asset or liability can be observed in the marketplace, there is no need to use present value measurements. The marketplace assessment of present value is already embodied in such prices.

18. Accounting measurement is a broad topic, and a comprehensive reconsideration of measurement was beyond the scope of this Statement. Throughout its consideration of present value, the Board focused on a set of fundamental questions relevant to measurements and amortization conventions that employ present value techniques:

a. What is the objective, or objectives, of present value when it is used in measurements at initial recognition of assets or liabilities?

b. Does the objective differ in subsequent fresh-start measurements of assets and liabilities?

c. Do measurements of liabilities require different objectives, or present different problems, than measurements of assets?

d. How should estimates of cash flows and interest rates be developed?

e. What is the objective, or objectives, of present value when it is used in the amortization of existing assets and liabilities?

f. If present value is used in the amortization of assets and liabilities, how should the technique be applied when estimates of cash flows change?

19. The present value formula is a tool used to incorporate the time value of money in a measurement. In their simplest form, present value techniques capture the amount that an entity demands (or that others demand from it) for money that it will receive (or pay) in the future. Present value is one of the foundations of economics and corporate finance, and the computation of present value is part of most modern asset-pricing models, including option-pricing models. Moreover, the present value of estimated future cash flows is implicit in all market prices, including the historical cost recorded when an entity purchases an asset for cash. That relationship is readily apparent when applied to financial assets like loans or bonds, but it extends to all assets and liabilities recognized in the financial statements.

20. The objective of using present value in an accounting measurement is to capture, to the extent possible, the economic difference between sets of future cash flows. For example, each of the 5 assets listed below has a future cash flow of $10,000:

a. An asset with a fixed contractual cash flow of $10,000 due in 1 day. The cash flow is certain of receipt.

b. An asset with a fixed contractual cash flow of $10,000 due in 10 years. The cash flow is certain of receipt.

c. An asset with a fixed contractual cash flow of $10,000 due in 1 day. The amount that ultimately will be received is uncertain. It may be less than $10,000 but will not be more.

d. An asset with a fixed contractual cash flow of $10,000 due in 10 years. The amount that ultimately will be received is uncertain. It may be less than $10,000 but will not be more.

e. An asset with an *expected* cash flow of $10,000 due in 10 years. The amount that ultimately will be received is uncertain, but it may be as high as $12,000, as low as $8,000, or some other amount within that range.

21. Four of those assets have the same contractual cash flow ($10,000), and the expected cash flow from the fifth is also that amount. Few would argue that they are economically the same or that a rational marketplace participant would pay the same price for each. The assets are distinguished from one another in timing and uncertainty, but an accounting measurement based on undiscounted cash flows would measure all five at the same amount. In contrast, present value helps to distinguish between unlike items that might otherwise appear similar. A present value measurement that incorporates the uncertainty in estimated future cash flows always provides more relevant information than a measurement based on the undiscounted sum of those cash flows or a discounted measurement that ignores uncertainty. (Refer to Appendix A for a numerical illustration.)

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22. Any combination of cash flows and interest rates could be used to compute a present value, at least in the broadest sense of the term. However, present value is not an end in itself. Simply applying an arbitrary interest rate to a series of cash flows provides limited information to financial statement users and may mislead rather than inform. To provide relevant information for financial reporting, present value must represent some observable measurement attribute of assets or liabilities. (As noted in paragraph 25, this Statement identifies that attribute as fair value.)

23. A present value measurement that fully captures the economic differences between the five assets described in paragraph 20 would necessarily include the following elements:

a. An estimate of the future cash flow, or in more complex cases, series of future cash flows at different times

b. Expectations about possible variations in the amount or timing of those cash flows

c. The time value of money, represented by the risk-free rate of interest

d. The price for bearing the uncertainty inherent in the asset or liability

e. Other, sometimes unidentifiable, factors including illiquidity and market imperfections.

24. Existing accounting conventions differ in the extent to which they incorporate those five elements.

a. *Fair value* captures all five elements using the estimates and expectations that marketplace participants would apply in determining the amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties.
b. *Value-in-use* and *entity-specific measurements* attempt to capture the value of an asset or liability in the context of a particular entity. Entity-specific measurement can be applied to capture all five elements. However, the measurement substitutes the entity's assumptions for those that marketplace participants would make. For example, an entity computing the entity-specific measurement of an asset would use its expectations about its use of that asset rather than the use assumed by marketplace participants.
c. *Effective-settlement* measurements represent the current amount of assets that if invested today at a stipulated interest rate will provide future cash inflows that match the cash outflows for a particular liability. As used in current accounting standards, effective-settlement measurements exclude the price component that marketplace participants demand for bearing uncertainty about the future cash flows and the price component attributed to the entity's credit standing.
d. *Cost-accumulation* or *cost-accrual* measurements attempt to capture the costs (usually incremental costs) that an entity anticipates it will incur in acquiring an asset or satisfying a liability over its expected term. Those measurements exclude other assumptions that would be included in an estimate of fair value. For example, an entity that is accruing the costs of settling a liability would typically exclude the overhead, profit margin, and risk premium (the price for bearing uncertainty) that third parties would incorporate in the price they would charge to assume the liability.

Present Value and Fair Value

25. The only objective of present value, when used in accounting measurements at initial recognition and fresh-start measurements, is to estimate fair value. Stated differently, present value should attempt to capture the elements that taken together would comprise a market price if one existed, that is, fair value.

26. Among their many functions, markets are systems that transmit information in the form of prices. Marketplace participants attribute prices to assets and, in doing so, distinguish the risks and rewards of one asset from those of another. Stated differently, the market's pricing mechanism ensures that unlike things do not appear alike and that like things do not appear to be different (a qualitative characteristic of accounting information). An observed market price encompasses the consensus view of all marketplace participants about an asset or liability's utility, future cash flows, the uncertainties surrounding those cash flows, and the amount that marketplace participants demand for bearing those uncertainties.

27. A transaction in the marketplace—an exchange for cash at or near to the date of the transaction—is the most common trigger for accounting recognition, and accountants typically accept actual exchange prices as fair value in measuring those transactions, absent persuasive evidence to the contrary. Indeed, the usual condition for using a measurement other than the exchange price is a conclusion that the stated price is not representative of fair value. The Board could not identify any persuasive rationale for using a measurement objective other than fair value, simply because the asset or liability is recognized without an accompanying cash transaction.

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28. In the absence of a cash transaction, accountants turn to other techniques for the initial measurement of an asset or liability, but the measurement objective remains the same. The process begins by determining whether others have bought or sold the same or similar items in recent cash transactions. Thus, if the entity receives U.S. Treasury securities in an exchange transaction, the initial measurement of those securities is based on the observed price of transactions by others. The same fair value objective applies in initial measurements of nonmonetary assets acquired in exchange transactions. Paragraph 18 of APB Opinion No. 29, *Accounting for Nonmonetary Transactions,* states the basic principle as follows:

> . . . general accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved which is the same basis as that used in monetary transactions. Thus, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered. Similarly, a nonmonetary asset received in a nonreciprocal transfer should be recorded at the fair value of the asset received. [Footnote reference omitted.]

29. If there are no observable transactions for similar assets or liabilities, the entity may be required to use estimates of future cash flows in the measurement. The same fair value objective can be found in APB Opinion No. 21, *Interest on Receivables and Payables*. Paragraph 13 of Opinion 21 concludes with the following description of the measurement objective, captured in a description of the interest rate:

> The objective is to approximate the rate which would have resulted if an independent borrower and an independent lender had negotiated a similar transaction under comparable terms and conditions with the option to pay the cash price upon purchase or to give a note for the amount of the purchase which bears the prevailing rate of interest to maturity.

30. The principles that apply to measurements at initial recognition also apply to fresh-start measurements. The interest rate described in Opinion 21 embodies the same notion as the "rate commensurate with the risks involved" described in Statement 121. The Board could not identify any rationale for taking a different view in subsequent fresh-start measurements (as opposed to depreciation and amortization conventions) than the view that would pertain to measurements at initial recognition. Information that is relevant at initial recognition does not become less so if the asset or liability is subject to a fresh-start measurement.

31. The various alternatives to fair value that are described in paragraph 24 share certain characteristics. Each alternative (a) adds factors that are not contemplated in the price of a market transaction for the asset or liability in question, (b) inserts assumptions made by the entity's management in the place of those that the market would make, and/or (c) excludes factors that would be contemplated in the price of a market transaction. Stated differently, each alternative either adds characteristics to the asset or liability for which marketplace participants will not pay or excludes characteristics for which marketplace participants demand and receive payment.

32. An entity's best estimate of the present value of cash flows will not necessarily equal the fair value of those uncertain cash flows. There are several reasons why an entity might expect to realize or pay cash flows that differ from those expected by others in the marketplace. Those include:

a. The entity's managers might intend different use or settlement than that anticipated by others. For example, they might intend to operate a property as a bowling alley, even though others in the marketplace consider its highest and best use to be a parking lot.
b. The entity's managers may prefer to accept risk of a liability (like a product warranty) and manage it internally, rather than transferring that liability to another entity.
c. The entity might hold special preferences, like tax or zoning variances, not available to others.
d. The entity might hold information, trade secrets, or processes that allow it to realize (or avoid paying) cash flows that differ from others' expectations.
e. The entity might be able to realize or pay amounts through use of internal resources. For example, an entity that manufactures materials used in particular processes acquires those materials at cost, rather than the market price charged to others. An entity that chooses to satisfy a liability with internal resources may avoid the markup or anticipated profit charged by outside contractors.

33. The items listed above constitute some of an entity's perceived advantages or disadvantages relative to others in the marketplace. If the entity measures an asset or liability at fair value, its comparative advantage or disadvantage will appear in earnings as it realizes assets or settles liabilities for amounts different than fair value. The effect on earnings appears when the advantage is employed to achieve cost savings or the disadvantage results in excess costs. In contrast, if the entity measures an asset or liability using a measurement other than fair value, its comparative advantage or disadvantage is embedded in the measurement of the asset or liability at initial recognition. If the offsetting entry is to revenue or expense, measurements other than fair value cause the future effects of this comparative advantage or disadvantage to be recognized in earnings at initial measurement.

34. FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises,* identifies three objectives of financial reporting. The financial statements and accompanying notes should provide information:

a. That is useful to present and potential investors and creditors and other users in making rational investment, credit, and similar decisions (paragraph 34)

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b. That helps present and potential investors and creditors and other users in assessing the amounts, timing, and uncertainty of prospective cash receipts from dividends or interest and the proceeds from the sale, redemption, or maturity of securities or loans (paragraph 37)

c. That tells about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources (paragraph 40).

35. Some have suggested that measurements other than fair value, like management's best estimate of future cash flows, are more consistent with the second objective of financial reporting. They reason that management's estimate of the most likely cash inflow or outflow is superior to fair value as a predictor of future cash flows. However, management's best estimate communicates no information about the uncertainty of future cash flows—a key element of the second objective. Such measurement excludes uncertainty, the price that marketplace participants demand for bearing uncertainty (risk premium), and the assumptions that marketplace participants would use in gauging estimated future cash flows. It provides some information but fails to provide the most relevant information for meeting the first and third objectives.

36. While the expectations of an entity's management are often useful and informative, the marketplace is the final arbiter of asset and liability values. Present value measurements with an objective of fair value are, within the limits of estimation, independent of the entity performing the measurement. As a result, fair value provides a neutral basis for comparing one entity with another. A particular entity may, in fact, possess advantages or disadvantages relative to others. The use of fair value in measurements at initial recognition or fresh-start measurements results in accounting recognition of the economic impact of those advantages or disadvantages as they are realized, rather than at initial recognition. For measurements at initial recognition or fresh-start measurements, fair value provides the most complete and representationally faithful measurement of the economic characteristics of an asset or a liability.

37. Finally, fair value represents a price and, as such, provides an unambiguous objective for the development of the cash flows and interest rates used in a present value measurement. In contrast, the alternative measurements all accept an element of arbitrariness in the selection of the estimated cash flows and interest rate. For example, some might argue that an asset-earning rate is appropriate for cost-accumulation measurement of liabilities. Others might argue for an incremental-borrowing or embedded interest rate. There is little conceptual basis, if any, for judging which of those arguments is correct. Proponents of those alternatives often judge the acceptability of a measurement objective based on the intent of management as to how it plans to use an asset or settle a liability. However, an entity must pay the market's price when it acquires an asset or settles a liability in a current transaction, regardless of its intentions or expectations.

38. Adopting fair value as the objective of present value measurements does not preclude the use of information and assumptions based on an entity's expectations. As a practical matter, an entity that uses cash flows in accounting measurements often has little or no information about some or all of the assumptions that marketplace participants would use in assessing the fair value of an asset or a liability. In those situations, the entity must necessarily use the information that is available without undue cost and effort in developing cash flow estimates. The use of an entity's own assumptions about future cash flows is compatible with an estimate of fair value, as long as there are no contrary data indicating that marketplace participants would use different assumptions. If such data exist, the entity must adjust its assumptions to incorporate that market information.

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The Components of a Present Value Measurement

39. Paragraph 23 describes the following elements that together capture the economic differences between various assets and liabilities:

a. An estimate of the future cash flow, or in more complex cases, series of future cash flows at different times
b. Expectations about possible variations in the amount or timing of those cash flows
c. The time value of money, represented by the risk-free rate of interest
d. The price for bearing the uncertainty inherent in the asset or liability
e. Other, sometimes unidentifiable, factors including illiquidity and market imperfections.

40. This Statement contrasts two approaches to computing present value, either of which may be used to estimate the fair value of an asset or a liability, depending on the circumstances. In the expected cash flow approach discussed in this Statement, only the third factor listed in paragraph 39 (the time value of money, represented by the risk-free rate of interest) is included in the discount rate; the other factors cause adjustments in arriving at risk-adjusted

expected cash flows. In a traditional approach to present value, adjustments for factors (b)–(e) described in paragraph 39 are embedded in the discount rate.

General Principles

41. The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset or liability in question. However, certain general principles govern any application of present value techniques in measuring assets or liabilities:

a. To the extent possible, estimated cash flows and interest rates should reflect assumptions about the future events and uncertainties that would be considered in deciding whether to acquire an asset or group of assets in an arm's-length transaction for cash.
b. Interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double counted or ignored. For example, an interest rate of 12 percent might be applied to contractual cash flows of a loan. That rate reflects expectations about future defaults from loans with particular characteristics. That same 12 percent rate should not be used to discount expected cash flows because those cash flows already reflect assumptions about future defaults.
c. Estimated cash flows and interest rates should be free from both bias and factors unrelated to the asset, liability, or group of assets or liabilities in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.
d. Estimated cash flows or interest rates should reflect the range of possible outcomes rather than a single most-likely, minimum, or maximum possible amount.

Traditional and Expected Cash Flow Approaches to Present Value

42. A present value measurement begins with a set of future cash flows, but existing accounting standards employ a variety of different approaches in specifying cash flow sets. Some applications of present value use contractual cash flows. When contractual cash flows are not available, some applications use an estimate of the single most-likely amount or best estimate.

43. Accounting applications of present value have traditionally used a single set of estimated cash flows and a single interest rate, often described as "the rate commensurate with the risk." In effect, although not always by conscious design, the traditional approach assumes that a single interest rate convention can reflect all the expectations about the future cash flows and the appropriate risk premium. The Board expects that accountants will continue to use the traditional approach for some measurements. In some circumstances, a traditional approach is relatively easy to apply. For assets and liabilities with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets and liabilities, as in "a 12 percent bond."

44. The traditional approach is useful for many measurements, especially those in which comparable assets and liabilities can be observed in the marketplace. However, the Board found that the traditional approach does not provide the tools needed to address some complex measurement problems, including the measurement of nonfinancial assets and liabilities for which no market for the item or a comparable item exists. The traditional approach places most of the emphasis on selection of an interest rate. A proper search for "the rate commensurate with the risk" requires analysis of at least two items—one asset or liability that exists in the marketplace and has an observed interest rate and the asset or liability being measured. The appropriate rate of interest for the cash flows being measured must be inferred from the observable rate of interest in some other asset or liability and, to draw that inference, the characteristics of the cash flows must be similar to those of the asset being measured. Consequently, the measurer must do the following:

a. Identify the set of cash flows that will be discounted.
b. Identify another asset or liability in the marketplace that appears to have similar cash flow characteristics.
c. Compare the cash flow sets from the two items to ensure that they are similar. (For example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?)
d. Evaluate whether there is an element in one item that is not present in the other. (For example, is one less liquid than the other?)

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e. Evaluate whether both sets of cash flows are likely to behave (vary) in a similar fashion under changing economic conditions.

45. The Board found the expected cash flow approach to be a more effective measurement tool than the traditional approach in many situations. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most-likely cash flow. For example, a cash flow might be $100, $200, or $300 with probabilities of 10 percent, 60 percent, and 30 percent, respectively. The expected cash flow is $220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.

46. The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of $1,000 may be received in 1 year, 2 years, or 3 years with probabilities of 10 percent, 60 percent, and 30 percent, respectively. The example below shows the computation of **expected present value** in that situation. Again, the expected present value of $892.36 differs from the traditional notion of a best estimate of $902.73 (the 60 percent probability) in this example.

Present value of $1,000 in 1 year at 5%	$ 952.38		
Probability	10.00	%	$ 95.24
Present value of $1,000 in 2 years at 5.25%	$ 902.73		
Probability	60.00	%	541.64
Present value of $1,000 in 3 years at 5.50%	$ 851.61		
Probability	30.00	%	255.48
Expected present value			$ 892.36

47. In the past, accounting standard setters have been reluctant to permit use of present value techniques beyond the narrow case of “contractual rights to receive money or contractual obligations to pay money on fixed or determinable dates.” That phrase, which first appeared in accounting standards in paragraph 2 of Opinion 21, reflects the computational limitations of the traditional approach—a single set of cash flows that can be assigned to specific future dates. The Accounting Principles Board recognized that the amount of cash flows is almost always uncertain and incorporated that uncertainty in the interest rate. However, an interest rate in a traditional present value computation cannot reflect uncertainties in timing. A traditional present value computation, applied to the example above, would require a decision about which of the possible timings of cash flows to use and, accordingly, would not reflect the probabilities of other timings.

48. While many accountants do not routinely use the expected cash flow approach, expected cash flows are inherent in the techniques used in some accounting measurements, like pensions, other postretirement benefits, and some insurance obligations. They are currently allowed, but not required, when measuring the impairment of long-lived assets and estimating the fair value of financial instruments. The use of probabilities is an essential element of the expected cash flow approach, and one that may trouble some accountants. They may question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph 44) requires the same estimates and subjectivity without providing the computational transparency of the expected cash flow approach.

49. Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset or liability using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:

a. The estimated amount falls somewhere between $50 and $250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is $150 [(50 + 250)/2].

b. The estimated amount falls somewhere between $50 and $250, and the most likely amount is $100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is $133.33 [(50 + 100 + 250)/3].

c. The estimated amount will be $50 (10 percent probability), $250 (30 percent probability), or $100 (60 percent probability). Based on that limited information, the estimated expected cash flow is $140 [(50 × .10) + (250 × .30) + (100 × .60)].

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50. Those familiar with statistical analysis may recognize the cases above as simple descriptions of (a) *uniform,* (b) *triangular,* and (c) *discrete* distributions. In each case, the estimated expected cash flow is likely to provide a better estimate of fair value than the minimum, most likely, or maximum amount taken alone.

51. Like any accounting measurement, the application of an expected cash flow approach is subject to a cost-benefit constraint. In some cases, an entity may have access to considerable data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring considerable cost. The accounting problem is to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement. The Board recognizes that judgments about relative costs and benefits vary from one situation to the next and involve financial statement preparers, their auditors, and the needs of financial statement users.

52. Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset or liability with two possible outcomes: a 90 percent probability that the cash flow will be $10 and a 10 percent probability that the cash flow will be $1,000. They observe that the expected cash flow in that example is $109 and criticize that result as not representing either of the amounts that may ultimately be paid.

53. Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Statement adopts fair value as the measurement objective. The fair value of the asset or liability in this example is not likely to be $10, even though that is the most likely cash flow. Instead, one would expect the fair value to be closer to $109 than to either $10 or $1,000. While this example is a difficult measurement situation, a measurement of $10 does not incorporate the uncertainty of the cash flow in the measurement of the asset or liability. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational marketplace participant would sell an asset (or assume a liability) with these characteristics for $10.

54. In recent years, financial institutions and others have developed and implemented a variety of pricing tools designed to estimate the fair value of assets and liabilities. It is not possible here to describe all of the many (often proprietary) pricing models currently in use. However, those tools often build on concepts similar to those outlined in this Statement as well as other developments in modern finance, including option pricing and similar models. For example, the well-known Black-Scholes option pricing model uses the elements of a fair value measurement described in paragraph 23 as appropriate in estimating the fair value of an option. To the extent that a pricing model includes each of the elements of fair value, its use is consistent with this Statement.

Relationship to Accounting for Contingencies

55. Some have questioned whether the fair value objective and expected cash flow approach described in this Statement conflict with FASB Statement No. 5, *Accounting for Contingencies,* and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss.* Statement 5 is primarily directed toward determining whether loss contingencies should be recognized and devotes little attention to measurement beyond the requirement that the amount of a loss can be reasonably estimated. This Statement focuses on the choice of a measurement attribute (fair value) and the application of a measurement technique (present value) rather than the decision to recognize a loss. The decision to recognize an asset or liability (or a change in an existing asset or liability) is different from the decision about a relevant measurement attribute. However, there are unavoidable interactions between accounting recognition and measurement, as discussed in paragraphs 56–61.

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56. When using estimated cash flow information, fair value measurements may appear to incorporate elements that could not be recognized under the provisions of Statement 5. For example, the fair value of a loan necessarily incorporates expectations about potential default, whereas under Statement 5, a loss cannot be recognized until it is probable that a loss event has occurred. Expectations about potential default are usually embodied in the interest rate, but they can also be expressed as adjustments to the expected cash flows (refer to Appendix A). Similarly, the amount that a third party would charge to assume an uncertain liability necessarily incorporates expectations about future events that are not probable, as that term is used in Statement 5. However, the use of *probable* in the first recognition criterion of Statement 5 refers to the likelihood that an asset has been impaired or a liability incurred. The term does not reference the individual cash flows or factors that would be considered in estimating the fair value of the asset or liability.

57. The potential for interaction between recognition (Is an asset impaired or does a liability exist?) and measurement (How much is the loss or the liability?) is inescapable. For example, a slight change in the assumptions from paragraphs 52 and 53—replacing a 90 percent probability of $10 with a 90 percent probability of $0—would lead some to a conclusion under Statement 5 that no liability should be recognized. The probable amount of loss described in Statement 5 is $0, but the expected cash flow is $100. On the other hand, if the entity has 10 potential liabilities with those characteristics, and the outcomes are independent of one another, some would conclude that the entity has a probable loss of $1,000. They might argue that 1 of the 10 potential liabilities will probably materialize and that recognizing a loss is consistent with Statement 5. Recognition issues like these are among the most intractable in accounting and are beyond the scope of this Statement.

58. The second recognition criterion in Statement 5 focuses on the ability to estimate the *amount of loss*. When describing liabilities, the *amount of loss* often has been used to describe an estimate of the most likely outcome and the accumulation of cash flows associated with that outcome. However, the estimated costs of ultimately settling a liability are not the same as the fair value of the liability itself; those costs are only one element in determining the fair value of that liability. As described in paragraph 23, measuring the fair value of an asset or liability entails the estimate of future cash flows, an assessment of their possible variability, the time value of money, and the price that marketplace participants demand for bearing the uncertainty inherent in those cash flows.

59. Once the recognition decision is reached, the amount of loss is sometimes reported through an adjustment to the existing amortization or reporting convention rather than through a fresh-start measurement. For example, FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan,* determines the amount of loss using a revised estimate of cash flows (which can be determined using an expected-cash-flow approach) and the historical effective interest rate—an adjustment within the amortization convention. (A fresh-start measurement would use the revised estimate of cash flows and a current interest rate.) Amortization and depreciation conventions other than the interest method are beyond the scope of this Statement. Adjustments to the interest method of allocation are discussed in paragraphs 89–100.

60. Other losses are reported through a fresh-start measurement of the asset. In those cases, the measurement principles are consistent with those described in this Statement. As mentioned earlier, Statement 121 is an example of a situation in which fair value is used in a fresh-start measurement to measure the amount of loss.

61. Although Statement 5 does not provide explicit measurement guidance for recognized loss contingencies, Interpretation 14 provides some measurement guidance. Interpretation 14 applies to the situation in which "no amount within the range [of loss] is a better estimate than any other amount" (paragraph 3). In those limited circumstances, the Interpretation prescribes a measurement equal to the minimum value in the range. It was developed to address measurement of losses in situations in which a single most-likely amount is not available. The measurement concepts described in this Statement focus on expected cash flows as a tool for measuring fair value and, as outlined earlier, the minimum amount in a range is not consistent with an estimate of fair value.

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Risk and Uncertainty

62. An estimate of fair value should include the price that marketplace participants are able to receive for bearing the uncertainties in cash flows—the adjustment for risk—if the amount is identifiable, measurable, and significant. An arbitrary adjustment for risk, or one that cannot be evaluated by comparison to marketplace information, introduces an unjustified bias into the measurement. On the other hand, excluding a risk adjustment (if it is apparent that marketplace participants include one) would not produce a measurement that faithfully represents fair value. There are many techniques for estimating a risk adjustment, including matrix pricing, option-adjusted spread models, and fundamental analysis. However, in many cases a reliable estimate of the market risk premium may not be obtainable or the amount may be small relative to potential measurement error in the estimated cash flows. In such situations, the present value of expected cash flows, discounted at a risk-free rate of interest, may be the best available estimate of fair value in the circumstances.

63. Present value measurements, like many other accounting measurements, occur under conditions of uncertainty. In this Statement, the term *uncertainty* refers to the fact that the cash flows used in a present value measurement are estimates, rather than known amounts. (Even contractual amounts, like the payments on a loan, are uncertain because some borrowers default.) That uncertainty has accounting implications because it has economic

consequences. Businesses and individuals routinely enter into transactions based on expectations about uncertain future events. The outcome of those events will place the entity in a financial position that may be better or worse than expected, but until the uncertainties are resolved, the entity is *at risk*.

64. In common usage, the word *risk* refers to any exposure to uncertainty in which the exposure has potential negative consequences. This broad use of the term often leads to misunderstandings. Risk is a relational concept, and a particular risk can only be understood in context. For example, consider 2 lenders that have each made 1,000 loans. Each lender could describe itself as being at risk with regard to the loans but their respective descriptions may have very different meanings. The first lender might describe itself as at risk that some of the 1,000 loans will default. The second lender might observe that it expects 150 loans to default and has set the interest rate accordingly. The second lender might then describe its risk as the chance that actual defaults will vary from the expected 150. Even though the two are describing the same economic activity (lending), they are likely to misunderstand one another unless each clearly describes the uncertainty and related exposure.

65. In most situations, marketplace participants are said to be *risk averse* or perhaps *loss averse*. A risk-averse investor prefers situations with a narrower range of uncertainty over situations with greater range of uncertainty relative to an expected outcome. A loss-averse investor places relatively greater importance on the likelihood of loss than on the potential for gain. Both types of marketplace participants seek compensation, referred to as a *risk premium,* for accepting uncertainty. Stated differently, given a choice between (a) an asset with expected cash flows that are uncertain and (b) another asset with cash flows of the same expected amount but no uncertainty, marketplace participants will place a higher value on (b) than (a). Similarly, marketplace participants generally seek to demand more to assume a liability with expected cash flows that are uncertain than to assume a liability with cash flows of the same expected amount but no uncertainty. This phenomenon can also be described with the financial axiom, "the greater the risk, the greater the return."

66. The behavior of a risk-averse marketplace participant can be illustrated by comparing two of the assets listed in paragraph 20. Asset B has a *promised* cash flow of $10,000, due 10 years hence, and there is no uncertainty about the cash flow. (A U.S. Treasury instrument is an example of Asset B.) Asset E has an *expected* cash flow of $10,000, due 10 years hence; however, the expected cash flows from Asset E are uncertain. Actual cash flows from Asset E may be as high as $12,000 or as low as $8,000, or some other amount within that range. If the risk-free rate of interest for 10-year instruments is 5 percent, a risk-averse marketplace participant would pay about $6,139 for Asset B. The risk-averse individual would pay something less for Asset E because of the uncertainty involved. (While the expected cash flow of $10,000 incorporates the uncertainty in cash flows from Asset E, that amount does not incorporate the premium that marketplace participants demand for bearing that uncertainty.) There are markets, like state lotteries, in which participants are risk seeking rather than risk averse. In those markets, participants pay more than an asset's expected cash flow in the hope of reaping a windfall. While they exist, those markets are not typical of situations encountered in financial reporting.

67. The objective of including uncertainty and risk in accounting measurements is to imitate, to the extent possible, the market's behavior toward assets and liabilities with uncertain cash flows. This should not be confused with notions of bias designed to intentionally understate the reported amount of an asset or overstate the reported amount of a liability. In paragraph 96 of FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* the Board observed:

> The Board emphasizes that any attempt to understate results consistently is likely to raise questions about the reliability and the integrity of information about those results and will probably be self-defeating in the long run. That kind of reporting, however well-intentioned, is not consistent with the desirable characteristics described in this Statement. On the other hand, the Board also emphasizes that imprudent reporting, such as may be reflected, for example, in overly optimistic estimates of realization, is certainly no less inconsistent with those characteristics. Bias in estimating components of earnings, whether overly conservative or unconservative, usually influences the timing of earnings or losses rather than their aggregate amount. As a result, unjustified excesses in either direction may mislead one group of investors to the possible benefit or detriment of others.

68. If prices for an asset or liability or an essentially similar asset or liability can be observed in the marketplace, there is no need to use present value measurements. (The marketplace assessment of present value is already embodied in the price.) However, if observed prices are unavailable, present value measurements are often the best available technique with which to estimate what a price would be. An entity typically will be able to estimate the expected cash flows from an asset or liability, but the appropriate risk premium consistent with fair value may be difficult to determine.

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69. Modern finance theory offers several insights into the problem of determining an appropriate risk premium. *Portfolio theory* holds that the degree of risk in any particular asset should not be measured in isolation. Instead, risk should be assessed by the extent to which a particular asset adds to or diminishes the total risk in a portfolio of assets. This suggests in turn that markets do not allow a premium for risk that can be eliminated by diversification. In particular, modern finance theory suggests that uncertainties that are particular to individual assets (referred to as *specific* or *idiosyncratic* risk) are minimized in the marketplace by combination with other assets with different risk profiles. Uncertainty that cannot be diversified (referred to as *systematic* risk) is described as the tendency of returns on an asset to covary with the market for all assets. Portfolio theory suggests that, in an efficient market, the amount attached to the risk premium would be expected to be small relative to expected cash flows, except to the extent of systematic risk.

70. Another group of economists question both the assumptions and the predictive power of the conventional finance theory described in paragraph 69. Proponents of *behavioral finance* dispute the notion of a *rational investor* assumed in conventional finance. Instead, they look to fields like psychology for insights. This branch of economics suggests that risk premiums vary based on the distribution of possible outcomes (for example, when there are remote chances of large losses or gains). Some also suggest that prices are influenced by recent experience and the *framing* of decisions.

71. Research in economics and finance has achieved powerful insights, but the applicability of those insights to measuring particular assets or liabilities is not always clear. For example, theoretical pricing models like the Capital Asset Pricing Model (CAPM) require strict assumptions that some find inconsistent with their perceptions of real-world markets or observed human behaviors. Moreover, the asset and liability measurement problems most likely to prompt use of present value measurement are those least likely to satisfy the restrictive assumptions inherent in many theoretical models.

Relevance and Reliability

72. Present value measurements are straightforward if an asset has contractual cash flows and a readily determinable market value. Of course, those conditions make present value measurements unnecessary. There is a longstanding preference in accounting for measurements based on observable marketplace amounts and transactions. The Board expects that accountants will continue to use observed amounts, when available, to determine the fair value of an asset or liability. However, many assets and liabilities do not have readily observable values derived from marketplace transactions.

73. Any measurement based on estimates is inherently imprecise, whether that measurement portrays the sum of cash flows or their present value. Estimates of the future usually turn out to have been incorrect to some extent, and actual cash flows often differ from estimates. The Concepts Statements acknowledge that neither relevance nor reliability is the paramount characteristic of accounting information. The two must be balanced against one another, and the weight given to each will vary from one situation to the next. However, a simple choice between present value and undiscounted measurement often presents a false dilemma. Techniques like the use of expected cash flows can extend the application of present value to measurements for which it was previously considered unsuitable. The use of simplifying assumptions allows accountants to develop present value measurements that are sufficiently reliable and certainly more relevant than undiscounted measurements.

74. Present value measurements are more complex than the simple summing of estimated future cash flows. Accountants may reach different conclusions about the amount and timing of future cash flows and the appropriate adjustments for uncertainty and risk. However, that possibility must be balanced against the prospect that an undiscounted measurement may make assets or liabilities appear comparable when they are not. Paragraph 20 described 5 assets with undiscounted cash flows of $10,000. Users of financial statements can take little comfort in a measurement that makes those five dissimilar assets appear similar.

Present Value in the Measurement of Liabilities

75. The concepts outlined in this Statement apply to liabilities as well as to assets. However, the measurement of liabilities sometimes involves problems different from those encountered in the measurement of assets and may require different techniques in arriving at fair value. When using present value techniques to estimate the fair value of a liability, the objective is to estimate the value of the assets required currently to (a) settle the liability with the holder or (b) transfer the liability to an entity of comparable credit standing.

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76. To estimate the fair value of an entity's notes or bonds payable, accountants attempt to estimate the price at which other entities are willing to hold the entity's liabilities as assets. That process involves the same techniques and computational problems encountered in measuring assets. For example, the proceeds from a loan are the price that a lender paid to hold the borrower's promise of future cash flows as an asset. Similarly, the fair value of a bond payable is the price at which that security trades, as an asset, in the marketplace. As outlined in paragraphs 78–81, this estimate of fair value is consistent with the objective of liability measurement described in the preceding paragraph.

77. On the other hand, some liabilities are owed to a class of individuals who do not usually sell their rights as they might sell other assets. For example, entities often sell products with an accompanying warranty. Buyers of those products rarely have the ability or inclination to sell the warranty separately from the covered asset, but they own a warranty asset nonetheless. Some of an entity's liabilities, like an obligation for environmental cleanup, are not the assets of identifiable individuals. However, such liabilities are sometimes settled through assumption by a third party. In estimating the fair value of such liabilities accountants attempt to estimate the price that the entity would have to pay a third party to assume the liability.

Credit Standing and Liability Measurement

78. The most relevant measure of a liability always reflects the credit standing of the entity obligated to pay. Those who hold the entity's obligations as assets incorporate the entity's credit standing in determining the prices they are willing to pay. When an entity incurs a liability in exchange for cash, the role of its credit standing is easy to observe. An entity with a strong credit standing will receive more cash, relative to a fixed promise to pay, than an entity with a weak credit standing. For example, if 2 entities both promise to pay $500 in 5 years, the entity with a strong credit standing may receive about $374 in exchange for its promise (a 6 percent interest rate). The entity with a weak credit standing may receive about $284 in exchange for its promise (a 12 percent interest rate). Each entity initially records its respective liability at fair value, which is the amount of proceeds received—an amount that incorporates that entity's credit standing.

79. The effect of an entity's credit standing on the fair value of particular liabilities depends on the ability of the entity to pay and on liability provisions that protect holders. Liabilities that are guaranteed by governmental bodies (for example, many bank deposit liabilities in the United States) may pose little risk of default to the holder. Other liabilities may include sinking-fund requirements or significant collateral. All of those aspects must be considered in estimating the extent to which the entity's credit standing affects the fair value of its liabilities.

80. The role of the entity's credit standing in a settlement transaction is less direct but equally important. A settlement transaction involves three parties—the entity, the parties to whom it is obligated, and a third party. The price of the transaction will reflect the competing interests of each party. For example, suppose Entity A has an obligation to pay $500 to Entity B 3 years hence. Entity A has a poor credit rating and therefore borrows at a 12 percent interest rate.

a. In a settlement transaction, Entity B would never consent to replace Entity A with an entity of lower credit standing. All other things being equal, Entity B might consent to replace Entity A with a borrower of similar credit standing and would probably consent to replace Entity A with a more creditworthy entity.
b. Entity C has a good credit rating and therefore borrows at a 6 percent interest rate. It might willingly assume Entity A's obligation for $420 (the present value at 6 percent). Entity C has no incentive to assume the obligation for less (a higher interest rate) if it can borrow at 6 percent because it can receive $420 for an identical promise to pay $500.
c. However, if Entity A were to borrow the money to pay Entity C, it would have to promise $590 ($420 due in 3 years with accumulated interest at 12 percent).

81. Based on the admittedly simple case outlined above, the fair value of Entity A's liability should be approximately $356 (the present value of $500 in 3 years at 12 percent). The $420 price demanded by Entity C includes the fair value of Entity A's liability ($356) plus the price of an upgrade in the credit quality of the liability. There may be situations in which an entity might pay an additional amount to induce others to enter into a settlement transaction. Those cases are analogous to the purchase of a credit guarantee and, like the purchase of a guarantee, the additional amount represents a separate transaction rather than an element in the fair value of the entity's original liability.

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82. The effect of an entity's credit standing on the measurement of its liabilities is usually captured in an adjustment to the interest rate, as illustrated above. This is similar to the traditional approach to incorporating risk and uncertainty in the measurement of assets and is well suited to liabilities with contractual cash flows. An expected cash flow approach may be more effective when measuring the effect of credit standing on other liabilities. For example, a liability may present the entity with a range of possible outflows, ranging from very low to very high amounts. There may be little chance of default if the amount is low, but a high chance of default if the amount is high. In situations like this, the effect of credit standing may be more effectively incorporated in the computation of expected cash flows.

83. The role of an entity's credit standing in the accounting measurement of its liabilities has been a controversial question among accountants. The entity's credit standing clearly affects the interest rate at which it borrows in the marketplace. The initial proceeds of a loan, therefore, always reflect the entity's credit standing at that time. Similarly, the price at which others buy and sell the entity's loan includes their assessment of the entity's ability to repay. The example in paragraph 80 demonstrates how the entity's credit standing would affect the price it would be required to pay to have another entity assume its liability. However, some have questioned whether an entity's financial statements should reflect the effect of its credit standing (or changes in credit standing).

84. Some suggest that the measurement objective for liabilities is fundamentally different from the measurement objective for assets. In their view, financial statement users are better served by liability measurements that focus on the entity's obligation. They suggest a measurement approach in which financial statements would portray the present value of an obligation such that two entities with the same obligation but different credit standing would report the same carrying amount. Some existing accounting pronouncements take this approach, most notably FASB Statements No. 87, *Employers' Accounting for Pensions,* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

85. However, there is no convincing rationale for why the initial measurement of some liabilities would necessarily include the effect of credit standing (as in a loan for cash) while others might not (as in a warranty liability or similar item). Similarly, there is no rationale for why, in initial or fresh-start measurement, the recorded amount of a liability should reflect something other than the price that would exist in the marketplace. Consistent with its conclusions on fair value (refer to paragraph 30), the Board found no rationale for taking a different view in subsequent fresh-start measurements of an existing asset or liability than would pertain to measurements at initial recognition.

86. Some argue that changes in an entity's credit standing are not relevant to users of financial statements. In their view, a fresh-start measurement that reflects changes in credit standing produces accounting results that are confusing. If the measurement includes changes in credit standing, and an entity's credit standing declines, the fresh-start measurement of its liabilities declines. That decline in liabilities is accompanied by an increase in owners' equity, a result that they find counterintuitive. How, they ask, can a bad thing (declining credit standing) produce a good thing (increased owners' equity)?

87. Like all measurements at fair value, fresh-start measurement of liabilities can produce unfamiliar results when compared with reporting the liabilities on an amortized basis. A change in credit standing represents a change in the relative positions of the two classes of claimants (shareholders and creditors) to an entity's assets. If the credit standing diminishes, the fair value of creditors' claims diminishes. The amount of shareholders' residual claim to the entity's assets may appear to increase, but that increase probably is offset by losses that may have occasioned the decline in credit standing. Because shareholders usually cannot be called on to pay a corporation's liabilities, the amount of their residual claims approaches, and is limited by, zero. Thus, a change in the position of borrowers necessarily alters the position of shareholders, and vice versa.

88. The failure to include changes in credit standing in the measurement of a liability ignores economic differences between liabilities. Consider the case of an entity that has two classes of borrowing. Class One was transacted when the entity had a strong credit standing and a correspondingly low interest rate. Class Two is new and was transacted under the entity's current lower credit standing. Both classes trade in the marketplace based on the entity's current credit standing. If the two liabilities are subject to fresh-start measurement, failing to include changes in the entity's credit standing makes the classes of borrowings seem different—even though the marketplace evaluates the quality of their respective cash flows as similar to one another.

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ACCOUNTING ALLOCATIONS THAT EMPLOY PRESENT VALUE
(INTEREST METHODS OF ALLOCATION)

89. Present value techniques also are used in periodic reporting conventions known collectively as *interest methods of allocation.* Most accountants are familiar with interest methods in the amortization of discount or premium, as outlined in Opinion 21. Similar techniques are used in a variety of situations, and questions about interest methods of allocation have arisen in several FASB projects.

90. Financial statements usually attempt to represent the changes in assets and liabilities from one period to the next. By using current information and assumptions, fresh-start measurements capture all the factors that create change, including (a) physical consumption of assets (or reduction of liabilities), (b) changes in estimates, and (c) holding gains and losses that result from price changes. In contrast, accounting allocations are planned approaches designed to represent only the first factor—consumption or reduction. The second factor—changes in estimates—may receive some recognition, but the effects of a change often have been spread over future periods. The third factor—holding gains and losses—generally has been excluded from allocation systems.

91. In principle, the purpose of all accounting allocations is to report changes in the value, utility, or substance of assets and liabilities over time. Paragraph 149 of FASB Concepts Statement No. 6, *Elements of Financial Statements,* describes the use of accounting allocations as follows:

> However, many assets yield their benefits to an entity over several periods, for example, prepaid insurance, buildings, and various kinds of equipment. Expenses resulting from their use are normally allocated to the periods of their estimated useful lives (the periods over which they are expected to provide benefits) by a "systematic and rational" allocation procedure, for example, by recognizing depreciation or other amortization. Although *the purpose of expense allocation is the same as that of other expense recognition—to reflect the using up of assets as a result of transactions or other events or circumstances affecting an entity*—allocation is applied if causal relations are generally, but not specifically, identified. [Emphasis added.]

92. Accounting allocations attempt to relate the change in an asset or liability to some observable real-world phenomenon. Simple straight-line depreciation relates that change to the estimated useful life of the asset. If one-half of the life has passed, then straight-line depreciation should have charged one-half of the original cost (net of salvage value) to expense. Other depreciation techniques rely on more specific relations like the number of units produced, but the principle is the same. An interest method relates changes in the reported amount with changes in the present value of a set of future cash inflows or outflows.

93. However precisely they may be described, allocation methods are only representations—they are not measurements of an asset or liability. The selection of a particular allocation method and the underlying assumptions always involve a degree of arbitrariness. As a result, no allocation method can be demonstrated to be superior to others in all circumstances. The Board will continue to decide whether to require an interest method of allocation on a project-by-project basis. While an interest method could be applied to any asset or liability, it is generally considered more relevant than other methods when applied to assets and liabilities that exhibit one or more of the following characteristics:

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a. The transaction giving rise to the asset or liability is commonly viewed as a borrowing and lending.
b. Period-to-period allocation of similar assets or liabilities employs an interest method.
c. A particular set of estimated future cash flows is closely associated with the asset or liability.
d. The measurement at initial recognition was based on present value.

94. Like all allocation systems, the manner in which an interest method of allocation is applied can greatly affect the pattern of income or expense. In particular, the interest method requires a careful description of the following:

a. The cash flows to be used (promised cash flows, expected cash flows, or some other estimate)
b. The convention that governs the choice of an interest rate (effective rate or some other rate)
c. How the rate is applied (constant effective rate or a series of annual rates)
d. How changes in the amount or timing of estimated cash flows are reported.

95. Existing accounting pronouncements vary in the extent to which they provide the guidance outlined in paragraph 94, and they vary considerably in their choice of cash flow and interest rate conventions. However, in most situations, the interest method is based on contractual cash flows and assumes a constant effective interest rate over the life of those cash flows. That is, the method uses promised cash flows (rather than expected cash flows) and bases the interest rate on the single rate that equates the present value of the promised cash flows with the initial price of the asset or liability.

96. A complete description of an interest method of allocation includes the mechanism for accommodating changes in estimated cash flows. Actual cash flows often occur sooner or later and in greater or lesser amounts than expected. If the variation is ignored, either the asset or liability will be fully amortized before all of the cash flows occur or a balance may remain after the last cash flow. In contrast, a change in market interest rates does not create a similar problem for a fixed-rate asset or liability, because the change in rates does not change the cash flows. The interest method is grounded in historical cost notions, and, in this context, a change in prevailing interest rates is akin to a price change. Unless the change in rates also changes estimated cash flows, as in the case of a variable-rate loan, the rate change has no effect on the amortization scheme.

97. Changes from the original estimate of cash flows, in either timing or amount, can be accommodated in the interest amortization scheme or included in a fresh-start measurement of the asset or liability. As indicated in paragraph 14, the Board decided not to address in this Statement the conditions that might govern the choice between those two approaches. If the amount or timing of estimated cash flows changes and the item is not remeasured, the interest amortization scheme must be altered to incorporate the new estimate of cash flows. The following techniques have been used to address changes in estimated cash flows:

a. A prospective approach computes a new effective interest rate based on the carrying amount and remaining cash flows.
b. A catch-up approach adjusts the carrying amount to the present value of the revised estimated cash flows, discounted at the original effective interest rate.
c. A retrospective approach computes a new effective interest rate based on the original carrying amount, actual cash flows to date, and remaining estimated cash flows. The new effective interest rate is then used to adjust the carrying amount to the present value of the revised estimated cash flows, discounted at the new effective interest rate.

98. The Board considers the catch-up approach to be preferable to other techniques for reporting changes in estimated cash flows because it is consistent with the present value relationships portrayed by the interest method and can be implemented at a reasonable cost. Under the catch-up approach, the recorded amount of an asset or liability, as long as estimated cash flows do not change, is the present value of the estimated future cash flows discounted at the original effective interest rate. If a change in estimate is effected through the catch-up approach, the measurement basis after the change will be the same as the measurement basis for the same asset or liability before the change in estimate (estimated cash flows discounted at the original effective rate).

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99. In contrast to the catch-up approach, the prospective approach obscures the impact of changes in estimated cash flows and, as a result, produces information that is less useful and relevant. The interest rate that is derived under the prospective approach is unrelated to the rate at initial recognition or to current market rates for similar assets and liabilities. The amount that remains on the balance sheet can be described as "the unamortized amount," but no more.

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100. The retrospective approach has been used in some pronouncements, and some consider it the most precise and complete of the three approaches listed in paragraph 97. However, the retrospective approach requires that entities retain a detailed record of all past cash flows. The costs of maintaining a complete record of all past cash flows usually outweigh any advantage provided by this approach.

COMPARISON OF THE CASH FLOW AND INTEREST RATE CONCEPTS IN THIS STATEMENT WITH THOSE USED IN OTHER ACCOUNTING MEASUREMENTS

101. The wide range of interest rate conventions and cash flow conventions used in existing accounting pronouncements was one of the factors that prompted the Board to add a present value project to its agenda. Accounting applications of present value have traditionally focused on the rate of interest applied to promised cash flows or, in the absence of a contract, a single most-likely estimate of future cash flows. That emphasis is consistent with the traditional accounting view of present value in which the interest rate is assumed to capture all the uncertainties and risks inherent in the cash flow estimate. However, a particular rate properly should consider (a) the uncertainties and risks of cash flows attributed to a particular asset or liability and (b) the objective of the measurement. This section compares the present value concepts in this Statement with cash flow and interest rate conventions found in existing accounting pronouncements.

102. Many accounting pronouncements simply specify "an appropriate rate" with little or no additional guidance. The appropriate rate of interest, however, does not exist in a vacuum. There is no way to identify the appropriate rate of interest without first understanding (a) the nature of the underlying estimated cash flows, (b) the assumptions used in estimating cash flows, and (c) the objective of the measurement. Without a specific objective of the measurement, such as a price, the selection of an interest rate necessarily includes an element of arbitrariness. In many cases, the measurement objective is apparent from the topic addressed in the pronouncement. For example, the reference to interest rates in APB Opinion No. 16, *Business Combinations,* arises in connection with a business combination accounted for as a purchase (in which the measurement objective is fair value).

Incremental Borrowing Rates

103. Some accounting pronouncements specify use of the entity's "incremental borrowing rate." Under certain conditions, the incremental borrowing rate may be consistent with the present value concepts in this Statement. If the rate is applied to promised cash flows to determine the fair value of a liability and if the terms of the liability are similar to those that the entity could obtain in an incremental borrowing, the resulting measurement would approximate the fair value of the entity's liability (refer to paragraph 78).

104. An entity's borrowing rate is rarely, if ever, appropriate for the measurement of that entity's assets. The uncertainties and risks embodied in a particular asset are usually unrelated to the risks assumed by those who hold the entity's obligations as assets. There are cases in which recognition of a liability and its measurement using present value are accompanied by recognition of an asset measured at a similar amount. However, in those situations, present value is used only to measure the liability. The recorded amount of the asset presumably is its fair value, as evidenced by the value of the debt incurred to acquire the asset.

Asset-Earning Rates

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105. Some accounting pronouncements specify that the rate the entity expects to earn from invested assets be used in the measurement of liabilities. Conventions that employ asset-based or expected-earning rates to measure liabilities are designed primarily to obtain particular patterns of recognized income or to present a purported symmetry between carrying amounts of assets and carrying amounts of liabilities. However, the expected-earning rates on actual or hypothetical asset portfolios are usually unrelated to the uncertainties and risks inherent in the liability's estimated cash flows. When used in the measurement of liabilities, asset-based or expected-earning rates are not consistent with the present value concepts described in this Statement.

106. Some have suggested that the cash flows from particular assets may mirror a liability's cash flows, such that a change in one offsets a change in the other. For example, the fair value of a promise to deliver 100 shares of stock in a particular company is (before considering the effect of credit standing) equal to the fair value of the stock. In concept, a marketplace participant should be indifferent (before considering the effect of credit standing) about holding (a) an entity's liability as an asset or (b) a portfolio of assets having the same cash flows (in timing and amount) as the entity's liability.

107. For some financial instruments, the cash flows of the instruments are indexed or closely related to the value of particular financial assets. In such cases, the values of the assets are clearly related to the values of the underlying liabilities. Some have suggested extending the use of *replicating portfolios* in estimating the fair value of other liabilities. This is one of several techniques that the Board is addressing as it studies issues related to the fair value of

financial instruments. Many modern pricing models, including the Black-Scholes model for pricing options, are built on replicating portfolios. However, the simple use of expected-earning rates to measure liabilities obscures both the investment risks inherent in the entity's assets and the uncertainties and risks inherent in the liabilities, which are different and unrelated risks.

108. Some have suggested that asset-earning rates are appropriate if a legal or contractual funding arrangement exists. They reason that a funding arrangement links the liability to a particular group of assets, or to the return from those assets. This notion is not consistent with the present value concepts in this Statement. Unless the liability obligates the entity to deliver specific assets, there is no relationship between the value of the assets and the cash flows necessary to meet the obligation. Accounting pronouncements have allowed balance sheet offsetting of funding assets against an obligation in some limited situations (like accounting for pensions); even so, those display conventions should not alter the underlying measurement concepts.

Implicit Offsetting

109. Some suggest that the factors that affect estimated future cash flows offset one another, making present value unnecessary. In their view, the undiscounted sum of future cash flows implicitly captures those offsetting factors. The time value of money, inflation, and uncertainty interact with one another. They do not, however, cancel each other (except by coincidence). For example, $1 of cash flow due 10 years hence and indexed to inflation is not worth $1 today. The indexed amount returns the cost of inflation but does not provide for the time value of money, which exists even when inflation does not. Marketplace participants demand a real (inflation-free) interest rate after removing the effects of inflation from their expectations.

This Statement was adopted by the affirmative vote of five members of the Financial Accounting Standards Board. Messrs. Larson and Trott dissented.

Messrs. Larson and Trott dissent from this Statement because of its adoption of fair value as the sole objective of using cash flow information and present value in accounting measurements at initial recognition and fresh-start measurements. They agree with the guidance in the Statement for using cash flow information and present value if the objective is to estimate fair value. However, they believe that cash flow information and present value used in cost-accumulation and other measurements also produces relevant information.

Members of the Financial Accounting Standards Board:

Edmund L. Jenkins, *Chairman*
Gaylen N. Larson
Gerhard G. Mueller
Anthony T. Cope
James J. Leisenring
Edward W. Trott
John M. Foster

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ภาคผนวก ช

มาตรฐานการบัญชีของประเทศไทย

Thai Accounting Standards (TASs)

มาตรฐานการบัญชีไทยฉบับเก่า		มาตรฐานการบัญชีไทยฉบับใหม่		
No.	เรื่อง	No.	เรื่อง	IAS, SFAS
		-	แม่บทการบัญชี	IASB Framework
1	ข้อสมมติขั้นมูลฐานของการบัญชี	1	ถูกยกเลิกและทดแทนโดยแม่บทการบัญชี	
2	นโยบายการบัญชี	2	ถูกยกเลิกและทดแทนโดย ฉบับที่ 35	
3	รายการพิเศษ	3	ถูกยกเลิกและทดแทนโดย ฉบับที่ 39	
4	การเปลี่ยนแปลงทางบัญชี	4	ถูกยกเลิกและทดแทนโดย ฉบับที่ 39	
5	กำไรต่อหุ้น	5	ถูกยกเลิกและทดแทนโดย ฉบับที่ 38	
6	การรับรู้รายได้	6	ถูกยกเลิกและทดแทนโดย ฉบับที่ 37	
7	การบัญชีเกี่ยวกับการเช่าซื้อ—ทางด้านผู้ให้เช่าซื้อ	7	การบัญชีเกี่ยวกับการเช่าซื้อ—ทางด้านผู้ให้เช่าซื้อ	
8	การบัญชีสำหรับงานก่อสร้างตามสัญญา	8	ถูกยกเลิกและทดแทนโดย ฉบับที่ 49	
9	การบัญชีสำหรับที่ดิน อาคารและอุปกรณ์	9	ถูกยกเลิกและทดแทนโดย ฉบับที่ 32	
10	การบัญชีค่าเสื่อมราคา	10	ถูกยกเลิกและทดแทนโดย ฉบับที่ 32	
11	หนี้สงสัยจะสูญและหนี้สูญ	11	หนี้สงสัยจะสูญและหนี้สูญ	
12	การบัญชีสำหรับหลักทรัพย์ในความต้องการของตลาด	12	ถูกยกเลิกและทดแทนโดย ฉบับที่ 40	
13	การเปิดเผยข้อมูลของกิจการที่เกี่ยวข้องกัน	13	ถูกยกเลิกและทดแทนโดย ฉบับที่ 47	
14	การบัญชีสำหรับการวิจัยและพัฒนา	14	ถูกยกเลิกและทดแทนโดย ฉบับที่ 51	
15	การตั้งต้นทุนการกู้ยืมเป็นราคาทุนของทรัพย์สิน	15	ถูกยกเลิกและทดแทนโดย ฉบับที่ 33	
16	สินทรัพย์หมุนเวียนและหนี้สินหมุนเวียน	16	ถูกยกเลิกและทดแทนโดย ฉบับที่ 35	
17	การบัญชีเกี่ยวกับเงินลงทุน	17	ถูกยกเลิกและทดแทนโดย ฉบับที่ 40	
18	การบัญชีสำหรับเงินลงทุนในบริษัทย่อย	18	ถูกยกเลิกและทดแทนโดย ฉบับที่ 45	

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	และบริษัทร่วม			
19	งบการเงินรวม	19	ถูกยกเลิกและทดแทนโดย ฉบับที่ 44	
20	การบัญชีสำหรับการรวมกิจการ	20	ถูกยกเลิกและทดแทนโดย ฉบับที่ 43	
21	เหตุการณ์ที่อาจเกิดขึ้นในภายหน้าและเหตุการณ์ภายหลังวันที่ในงบการเงิน	21	ถูกยกเลิกและทดแทนโดย ฉบับที่ 52	
22	สินค้าคงเหลือ	22	ถูกยกเลิกและทดแทนโดย ฉบับที่ 31	
23	ข้อมูลที่ควรเปิดเผยในงบการเงิน	23	ถูกยกเลิกและทดแทนโดย ฉบับที่ 35	
24	การเสนอข้อมูลทางการเงินจำแนกตามส่วนงาน	24	ถูกยกเลิกและทดแทนโดย ฉบับที่ 50	
25	งบกระแสเงินสด	25	งบกระแสเงินสด	
26	การรับรู้รายได้สำหรับธุรกิจอสังหาริมทรัพย์	26	การรับรู้รายได้สำหรับธุรกิจอสังหาริมทรัพย์	
27	การเปิดเผยข้อมูลในงบการเงินของธนาคารและสถาบันการเงินที่คล้ายคลึงกัน	27	การเปิดเผยข้อมูลในงบการเงินของธนาคารและสถาบันการเงินที่คล้ายคลึงกัน	
28	การบัญชีสำหรับหนี้แปลงสภาพ และหนี้ที่ออกพร้อมใบสำคัญแสดงสิทธิซื้อหุ้น	28	ถูกยกเลิกและทดแทนโดย ฉบับที่ 48	
29	การบัญชีสำหรับสัญญาเช่าระยะยาว	29	การบัญชีสำหรับสัญญาเช่าระยะยาว	
30	ผลกระทบจากการเปลี่ยนแปลงของอัตราแลกเปลี่ยนเงินตราต่างประเทศ	30	ผลกระทบจากการเปลี่ยนแปลงของอัตราแลกเปลี่ยนเงินตราต่างประเทศ	
31	สินค้าคงเหลือ	31	สินค้าคงเหลือ	
		32	ที่ดิน อาคารและอุปกรณ์	IAS 16 (1998)
		33	ต้นทุนการกู้ยืม	IAS 23 (1993)
		34	การบัญชีสำหรับการปรับโครงสร้างหนี้ที่มีปัญหา (ปรับปรุง 2545)	SFAS 15, 114
		35	การนำเสนองบการเงิน	IAS 1 (1997)
		36	การด้อยค่าของสินทรัพย์	IAS 36 (1998)
		37	การรับรู้รายได้	IAS 18 (1993)
		38	กำไรต่อหุ้น	IAS 33 (1997)
		39	กำไรหรือขาดทุนสุทธิสำหรับงวด ข้อผิดพลาดที่สำคัญ และการเปลี่ยนแปลงทางบัญชี	IAS 8 (1993)
		40	การบัญชีสำหรับเงินลงทุนในตราสารหนี้และตราสารทุน	IAS 39 (1998), SFAS 115
		41	งบการเงินระหว่างกาล	IAS 34 (1998)
		42	การบัญชีสำหรับกิจการที่ดำเนินธุรกิจเฉพาะด้านการลงทุน	AICPA Industrial Audit Guide

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		43	การรวมธุรกิจ	IAS 22 (1998)
		44	งบการเงินรวมและการบัญชีสำหรับเงินลงทุนในบริษัทย่อย	IAS 27 (1998)
		45	การบัญชีสำหรับเงินลงทุนในบริษัทร่วม	IAS 28 (1998)
		46	รายงานทางการเงินเกี่ยวกับส่วนได้เสียในการร่วมค้า	IAS 31 (1998)
		47	การเปิดเผยข้อมูลเกี่ยวกับบุคคลหรือกิจการที่เกี่ยวข้องกัน	IAS 24 (1994)
		48	การแสดงรายการและการเปิดเผยข้อมูลสำหรับเครื่องมือทางการเงิน	IAS 32 (1998)
		49	สัญญาก่อสร้าง	IAS 11 (1993)
		50	การเสนอข้อมูลทางการเงินจำแนกตามส่วนงาน	IAS 14 (1997)
		51	สินทรัพย์ไม่มีตัวตน	IAS 38 (1998)
		52	เหตุการณ์ภายหลังวันที่ในงบดุล	IAS 10 (1999)
		53	ประมาณการหนี้สิน หนี้สินที่อาจเกิดขึ้นและสินทรัพย์ที่อาจเกิดขึ้น	IAS 37 (1998)
		54	การดำเนินงานที่ยกเลิก	IAS 35 (1998)
		55	การบัญชีสำหรับเงินอุดหนุนจากรัฐบาลและการเปิดเผยข้อมูลเกี่ยวกับความช่วยเหลือจากรัฐบาล	IAS 20 (reformatted 1994)
		56	การบัญชีเกี่ยวกับภาษีเงินได้	IAS 12 (1996)

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ภาคผนวก ซ

มาตรฐานการบัญชีของประเทศสหราชอาณาจักร

Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs)

(http://www.asb.co.uk/asb/technical/standards.cfm)

Financial Reporting Standards (FRSs)

FRS 27 - Life Assurance
FRS 26 (IAS 39) - Financial Instruments: Measurement
FRS 25 (IAS 32) - Financial Instruments: Disclosure and Presentation
FRS 24 (IAS 29) - Financial Reporting in Hyperinflationary Economies
FRS 23 (IAS 21) - The Effects of Changes in Foreign Exchange Rates
FRS 22 (IAS 33) - Earnings per share
FRS 21 (IAS 10) - Events after the Balance Sheet Date
FRS 20 (IFRS2) - Share-based Payment
FRS 19 - Deferred Tax
FRS 18 - Accounting Policies
FRS 17 - Retirement Benefits
FRS 16 - Current Tax
FRS 15 - Tangible Fixed Assets
FRS 14 - Earnings per Share
FRS 13 - Derivatives and other Financial Instruments: Disclosures
FRS 12 - Provisions, Contingent Liabilities and Contingent Assets
FRS 11 - Impairment of Fixed Assets and Goodwill
FRS 10 - Goodwill and Intangible Assets
FRS 9 - Associates and Joint Ventures
FRS 8 - Related Party Disclosures
FRS 7 - Fair Values in Acquisition Accounting
FRS 6 - Acquisitions and Mergers
FRS 5 - Reporting the Substance of Transactions
FRS 4 - Capital Instruments
FRS 3 - Reporting Financial Performance
FRS 2 - Accounting for Subsidiary Undertakings
FRS 1 (Revised 1996) - Cash Flow Statements
FRSSE (Effective June 2002) - Financial Reporting Standard for Smaller Entities

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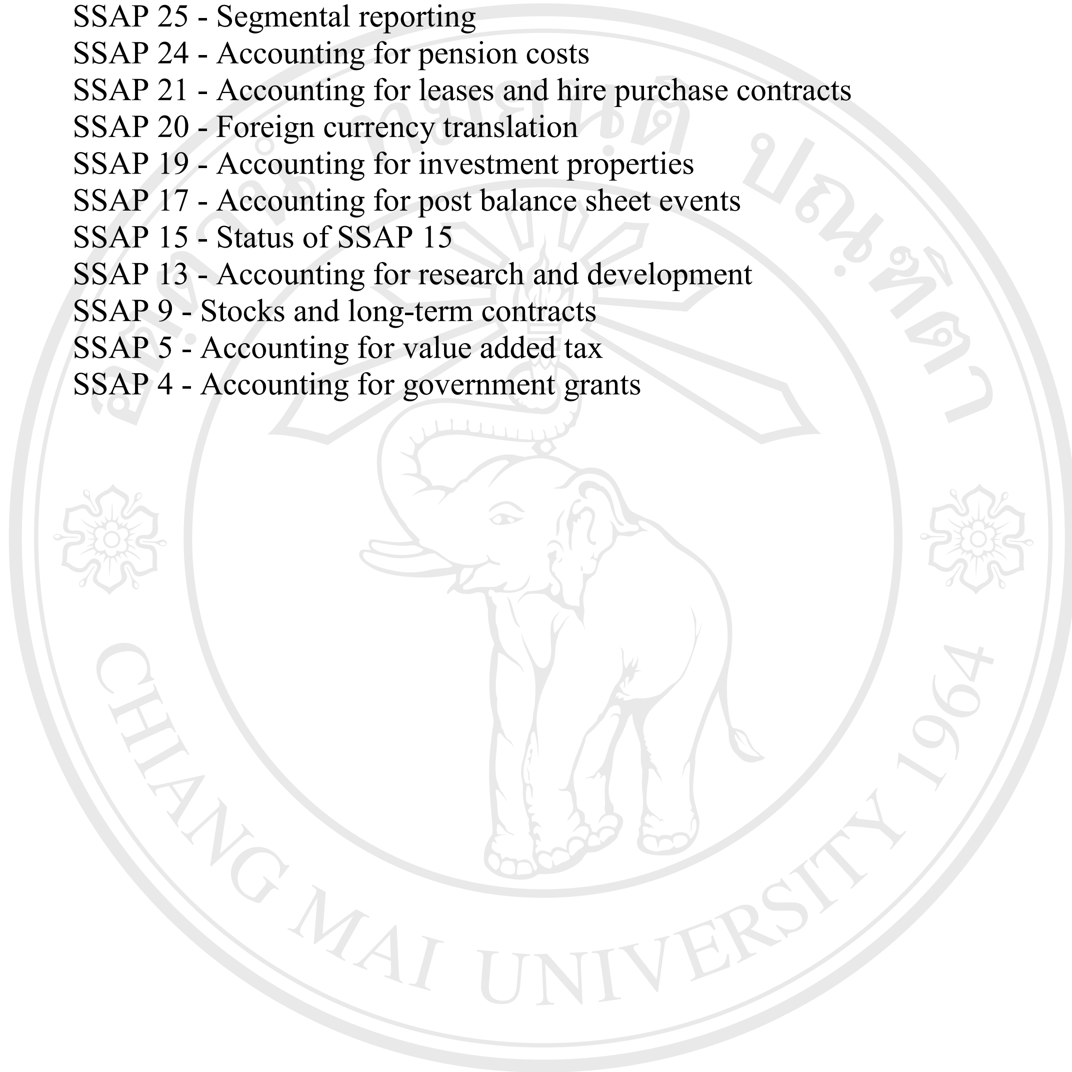
Statements of Standard Accounting Practice (SSAPs)

SSAP 25 - Segmental reporting
SSAP 24 - Accounting for pension costs
SSAP 21 - Accounting for leases and hire purchase contracts
SSAP 20 - Foreign currency translation
SSAP 19 - Accounting for investment properties
SSAP 17 - Accounting for post balance sheet events
SSAP 15 - Status of SSAP 15
SSAP 13 - Accounting for research and development
SSAP 9 - Stocks and long-term contracts
SSAP 5 - Accounting for value added tax
SSAP 4 - Accounting for government grants



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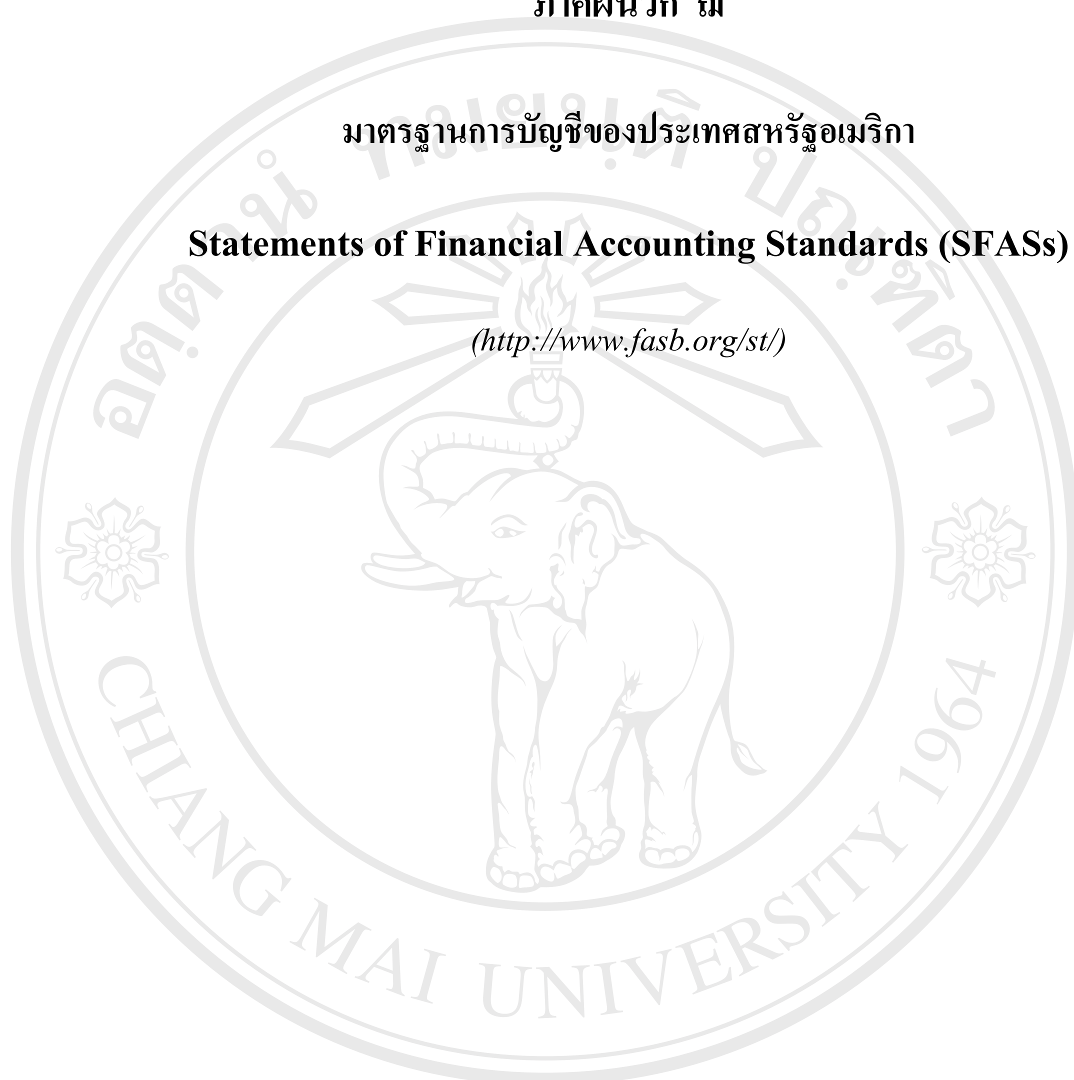
ภาคผนวก ณ

มาตรฐานการบัญชีของประเทศสหรัฐอเมริกา

Statements of Financial Accounting Standards (SFASs)

(http://www.fasb.org/st/)



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Statement No. 123 (revised 2004) (Issue Date 12/04)
Share-Based Payment

Statement No. 153 (Issue Date 12/04)
Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29

Statement No. 152 (Issue Date 12/04)
Accounting for Real Estate Time-Sharing Transactions—an amendment of FASB Statements No. 66 and 67

Statement No. 151 (Issue Date 11/04)
Inventory Costs—an amendment of ARB No. 43, Chapter 4

Statement No. 132 (revised 2003) (Issue Date 12/03)
Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB Statements No. 87, 88, and 106

Statement No. 150 (Issue Date 5/03)
Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

Statement No. 149 (Issue Date 4/03)
Amendment of Statement 133 on Derivative Instruments and Hedging Activities

Statement No. 148 (Issue Date 12/02)
Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123

Statement No. 147 (Issue Date 10/02)
Acquisitions of Certain Financial Institutions—an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9

Statement No. 146 (Issue Date 6/02)
Accounting for Costs Associated with Exit or Disposal Activities

Statement No. 145 (Issue Date 4/02)
Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections

Statement No. 144 (Issue Date 8/01)
Accounting for the Impairment or Disposal of Long-Lived Assets

Statement No. 143 (Issue Date 6/01)
Accounting for Asset Retirement Obligations

Statement No. 142 (Issue Date 6/01)
Goodwill and Other Intangible Assets

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Statement No. 141 (Issue Date 6/01)
Business Combinations

Statement No. 140 (Issue Date 9/00)
Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125

Statement No. 139 (Issue Date 6/00)
Rescission of FASB Statement No. 53 and amendments to FASB Statements No. 63, 89, and 121

Statement No. 138 (Issue Date 6/00)
Accounting for Certain Derivative Instruments and Certain Hedging Activities-an amendment of FASB Statement No. 133

Statement No. 137 (Issue Date 6/99)
Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133—an amendment of FASB Statement No. 133

Statement No. 136 (Issue Date 6/99)
Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others

Statement No. 135 (Issue Date 2/99)
Rescission of FASB Statement No. 75 and Technical Corrections

Statement No. 134 (Issue Date 10/98)
Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise—an amendment of FASB Statement No. 65

Statement No. 133 (Issue Date 6/98)
Accounting for Derivative Instruments and Hedging Activities

Statement No. 132 (Issue Date 2/98)
Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB Statements No. 87, 88, and 106

Statement No. 131 (Issue Date 6/97)
Disclosures about Segments of an Enterprise and Related Information

Statement No. 130 (Issue Date 6/97)
Reporting Comprehensive Income

Statement No. 129 (Issue Date 2/97)
Disclosure of Information about Capital Structure

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Statement No. 128 (Issue Date 2/97)
Earnings per Share

Statement No. 127 (Issue Date 12/96)
Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125—an amendment to FASB Statement No. 125

Statement No. 126 (Issue Date 12/96)
Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities—an amendment to FASB Statement No. 107

Statement No. 125 (Issue Date 6/96)
Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Statement No. 124 (Issue Date 11/95)
Accounting for Certain Investments Held by Not-for-Profit Organizations

Statement No. 123 (Issue Date 10/95)
Accounting for Stock-Based Compensation

Statement No. 122 (Issue Date 5/95)
Accounting for Mortgage Servicing Rights—an amendment of FASB Statement No. 65

Statement No. 121 (Issue Date 3/95)
Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of

Statement No. 120 (Issue Date 1/95)
Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts—an amendment of FASB Statements 60, 97, and 113 and Interpretation No. 40

Statement No. 119 (Issue Date 10/94)
Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments

Statement No. 118 (Issue Date 10/94)
Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures—an amendment of FASB Statement No. 114

Statement No. 117 (Issue Date 6/93)
Financial Statements of Not-for-Profit Organizations

Statement No. 116 (Issue Date 6/93)
Accounting for Contributions Received and Contributions Made

Statement No. 115 (Issue Date 5/93)
Accounting for Certain Investments in Debt and Equity Securities

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Statement No. 114 (Issue Date 5/93)
Accounting by Creditors for Impairment of a Loan—an amendment of FASB Statements No. 5 and 15

Statement No. 113 (Issue Date 12/92)
Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts

Statement No. 112 (Issue Date 11/92)
Employers' Accounting for Postemployment Benefits—an amendment of FASB Statements No.5 and 43

Statement No. 111 (Issue Date 11/92)
Rescission of FASB Statement No. 32 and Technical Corrections

Statement No. 110 (Issue Date 8/92)
Reporting by Defined Benefit Pension Plans of Investment Contracts—an amendment of FASB Statement No. 35

Statement No. 109 (Issue Date 2/92)
Accounting for Income Taxes

Statement No. 108 (Issue Date 12/91)
Accounting for Income Taxes-Deferral of the Effective Date of FASB Statement No. 96—an amendment of FASB Statement No. 96

Statement No. 107 (Issue Date 12/91)
Disclosures about Fair Value of Financial Instruments

Statement No. 106 (Issue Date 12/90)
Employers' Accounting for Postretirement Benefits Other Than Pensions

Statement No. 105 (Issue Date 3/90)
Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk

Statement No. 104 (Issue Date 12/89)
Statement of Cash Flows-Net Reporting of Certain Cash Receipts and Cash Payments and Classification of Cash Flows from Hedging Transactions—an amendment of FASB Statement No. 95

Statement No. 103 (Issue Date 12/89)
Accounting for Income Taxes-Deferral of the Effective Date of FASB Statement No. 96—an amendment of FASB Statement No. 96

Statement No. 102 (Issue Date 2/89)
Statement of Cash Flows-Exemption of Certain Enterprises and Classification of Cash Flows from Certain Securities Acquired for Resale—an amendment of FASB Statement No. 95

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Statement No. 101 (Issue Date 12/88)
Regulated Enterprises-Accounting for the Discontinuation of Application of FASB Statement No. 71

Statement No. 100 (Issue Date 12/88)
Accounting for Income Taxes-Deferral of the Effective Date of FASB Statement No. 96—an amendment of FASB Statement No. 96

Statement No. 99 (Issue Date 9/88)
Deferral of the Effective Date of Recognition of Depreciation by Not-for-Profit Organizations—an amendment of FASB Statement No. 93

Statement No. 98 (Issue Date 5/88)
Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases—an amendment of FASB Statements No. 13, 66, and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11

Statement No. 97 (Issue Date 12/87)
Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments

Statement No. 96 (Issue Date 12/87)
Accounting for Income Taxes

Statement No. 95 (Issue Date 11/87)
Statement of Cash Flows

Statement No. 94 (Issue Date 10/87)
Consolidation of All Majority-owned Subsidiaries—an amendment of ARB No. 51, with related amendments of APB Opinion No. 18 and ARB No. 43, Chapter 12

Statement No. 93 (Issue Date 8/87)
Recognition of Depreciation by Not-for-Profit Organizations

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Statement No. 92 (Issue Date 8/87)
Regulated Enterprises-Accounting for Phase-in Plans—an amendment of FASB Statement No. 71

Statement No. 91 (Issue Date 12/86)
Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases—an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17

Statement No. 90 (Issue Date 12/86)
Regulated Enterprises-Accounting for Abandonments and Disallowances of Plant Costs—an amendment of FASB Statement No. 71

Statement No. 89 (Issue Date 12/86)
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Statement No. 88 (Issue Date 12/85)
Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits

Statement No. 87 (Issue Date 12/85)
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Statement No. 86 (Issue Date 8/85)
Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed

Statement No. 85 (Issue Date 3/85)
Yield Test for Determining whether a Convertible Security is a Common Stock Equivalent—an amendment of APB Opinion No. 15

Statement No. 84 (Issue Date 3/85)
Induced Conversions of Convertible Debt—an amendment of APB Opinion No. 26

Statement No. 83 (Issue Date 3/85)
Designation of AICPA Guides and Statement of Position on Accounting by Brokers and Dealers in Securities, by Employee Benefit Plans, and by Banks as Preferable for Purposes of Applying APB Opinion 20—an amendment FASB Statement No. 32 and APB Opinion No. 30 and a rescission of FASB Interpretation No. 10

Statement No. 82 (Issue Date 11/84)
Financial Reporting and Changing Prices: Elimination of Certain Disclosures—an amendment of FASB Statement No. 33

Statement No. 81 (Issue Date 11/84)
Disclosure of Postretirement Health Care and Life Insurance Benefits

Statement No. 80 (Issue Date 8/84)
Accounting for Futures Contracts

Statement No. 79 (Issue Date 2/84)
Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises—an amendment of APB Opinion No. 16

Statement No. 78 (Issue Date 12/83)
Classification of Obligations That Are Callable by the Creditor—an amendment of ARB No. 43, Chapter 3A

Statement No. 77 (Issue Date 12/83)
Reporting by Transferors for Transfers of Receivables with Recourse

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Statement No. 76 (Issue Date 11/83)
Extinguishment of Debt-an amendment of APB Opinion No. 26

Statement No. 75 (Issue Date 11/83)
Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units—an amendment of FASB Statement No. 35

Statement No. 74 (Issue Date 8/83)
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Statement No. 73 (Issue Date 8/83)
Reporting a Change in Accounting for Railroad Track Structures—an amendment of APB Opinion No.20

Statement No. 72 (Issue Date 2/83)
Accounting for Certain Acquisitions of Banking or Thrift Institutions—an amentsumt of APB Opinion No.17, an interpretation of APB Opinions 16 and 17, and an amendment of FASB Interpretation No.9

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Statement No. 70 (Issue Date 12/82)
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Statement No. 69 (Issue Date 11/82)
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Statement No. 67 (Issue Date 10/82)
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Accounting for Sales of Real Estate

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Accounting for Certain Mortgage Banking Activities

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Statement No. 64 (Issue Date 9/82)
Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements—an amendment of FASB Statement No. 4

Statement No. 63 (Issue Date 6/82)
Financial Reporting by Broadcasters

Statement No. 62 (Issue Date 6/82)
Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants—an amendment of FASB Statement No. 34

Statement No. 61 (Issue Date 6/82)
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Statement No. 60 (Issue Date 6/82)
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Statement No. 59 (Issue Date 4/82)
Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units—an amendment of FASB Statement No. 35

Statement No. 58 (Issue Date 4/82)
Capitalization of Interest Cost in Financial Statements That Include Investments Accounted for by the Equity Method—an amendment of FASB Statement No. 34

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Statement No. 56 (Issue Date 2/82)
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Statement No. 55 (Issue Date 2/82)
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Statement No. 54 (Issue Date 1/82)
Financial Reporting and Changing Prices: Investment Companies—an amendment of FASB Statement No. 33

Statement No. 53 (Issue Date 12/81)
Financial Reporting by Producers and Distributors of Motion Picture Films

Statement No. 52 (Issue Date 12/81)
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Statement No. 51 (Issue Date 11/81)
Financial Reporting by Cable Television Companies

Statement No. 50 (Issue Date 11/81)
Financial Reporting in the Record and Music Industry

Statement No. 49 (Issue Date 6/81)
Accounting for Product Financing Arrangements

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Statement No. 48 (Issue Date 6/81)
Revenue Recognition When Right of Return Exists

Statement No. 47 (Issue Date 3/81)
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Statement No. 46 (Issue Date 3/81)
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Statement No. 45 (Issue Date 3/81)
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Statement No. 44 (Issue Date 12/80)
Accounting for Intangible Assets of Motor Carriers—an amendment of Chapter 5 of ARB No. 43 and an interpretation of APB Opinions 17 and 30

Statement No. 43 (Issue Date 11/80)
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Statement No. 42 (Issue Date 11/80)
Determining Materiality for Capitalization of Interest Cost—an amendment of FASB Statement No.34

Statement No. 41 (Issue Date 11/80)
Financial Reporting and Changing Prices: Specialized Assets-Income-Producing Real Estate—a supplement to FASB Statement No. 33

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Financial Reporting and Changing Prices: Specialized Assets-Timberlands and Growing Timber—a supplement to FASB Statement No. 33

Statement No. 39 (Issue Date 10/80)
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Statement No. 38 (Issue Date 9/80)
Accounting for Preacquisition Contingencies of Purchased Enterprises—an amendment of APB Opinion No. 16

Statement No. 37 (Issue Date 7/80)
Balance Sheet Classification of Deferred Income Taxes—an amendment of APB Opinion No. 11

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Disclosure of Pension Information—an amendment of APB Opinion No. 8

Statement No. 35 (Issue Date 3/80)
Accounting and Reporting by Defined Benefit Pension Plans

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Statement No. 34 (Issue Date 10/79)
Capitalization of Interest Cost

Statement No. 33 (Issue Date 9/79)
Financial Reporting and Changing Prices

Statement No. 32 (Issue Date 9/79)
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Statement No. 31 (Issue Date 9/79)
Accounting for Tax Benefits Related to U.K. Tax Legislation Concerning Stock Relief

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Statement No. 25 (Issue Date 2/79)
Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies—an amendment of FASB Statement No. 19

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Statement No. 24 (Issue Date 12/78)
Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report—an amendment of FASB Statement No. 14

Statement No. 23 (Issue Date 8/78)
Inception of the Lease—an amendment of FASB Statement No. 13

Statement No. 22 (Issue Date 6/78)
Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt—an amendment of FASB Statement No. 13

Statement No. 21 (Issue Date 4/78)
Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises—an amendment of APB Opinion No. 15 and FASB Statement No. 14

Statement No. 20 (Issue Date 12/77)
Accounting for Forward Exchange Contracts—an amendment of FASB Statement No. 8

Statement No. 19 (Issue Date 12/77)
Financial Accounting and Reporting by Oil and Gas Producing Companies

Statement No. 18 (Issue Date 11/77)
Financial Reporting for Segments of a Business Enterprise: Interim Financial Statements—an amendment of FASB Statement No. 14

Statement No. 17 (Issue Date 11/77)
Accounting for Leases: Initial Direct Costs—an amendment of FASB Statement No. 13

Statement No. 16 (Issue Date 6/77)
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Statement No. 15 (Issue Date 6/77)
Accounting by Debtors and Creditors for Troubled Debt Restructurings

Statement No. 14 (Issue Date 12/76)
Financial Reporting for Segments of a Business Enterprise

Statement No. 13 (Issue Date 11/76)
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Statement No. 12 (Issue Date 12/75)
Accounting for Certain Marketable Securities

Statement No. 11 (Issue Date 12/75)
Accounting for Contingencies: Transition Method—an amendment of FASB Statement No. 5

Statement No. 10 (Issue Date 10/75)
Extension of "Grandfather" Provisions for Business Combinations—an amendment of APB Opinion No. 16

Statement No. 9 (Issue Date 10/75)
Accounting for Income Taxes: Oil and Gas Producing Companies—an amendment of APB Opinions No. 11 and 23

Statement No. 8 (Issue Date 10/75)
Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements

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Statement No. 7 (Issue Date 6/75)
Accounting and Reporting by Development Stage Enterprises

Statement No. 6 (Issue Date 5/75)
Classification of Short-Term Obligations Expected to Be Refinanced—an amendment of ARB No. 43, Chapter 3A

Statement No. 5 (Issue Date 3/75)
Accounting for Contingencies

Statement No. 4 (Issue Date 3/75)
Reporting Gains and Losses from Extinguishment of Debt—an amendment of APB Opinion No. 30

Statement No. 3 (Issue Date 12/74)
Reporting Accounting Changes in Interim Financial Statements—an amendment of APB Opinion No. 28

Statement No. 2 (Issue Date 10/74)
Accounting for Research and Development Costs

Statement No. 1 (Issue Date 12/73)
Disclosure of Foreign Currency Translation Information

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ภาคผนวก ญ

มาตรฐานการบัญชีระหว่างประเทศ

International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs)

(http://www.iasplus.com/standard/standard.htm)

International Financial Reporting Standards	Last Revised
Preface to International Financial Reporting Standards	May 2002
IFRS 1 First-time Adoption of International Financial Reporting Standards	June 2003
IFRS 2 Share-based Payment	February 2004
IFRS 3 Business Combinations	March 2004
IFRS 4 Insurance Contracts	March 2004
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	March 2004
IFRS 6 Exploration for and Evaluation of Mineral Assets	December 2004
International Accounting Standards	**Last Revised**
IAS 1 Presentation of Financial Statements	Dec. 2003
IAS 2 Inventories	Dec. 2003
IAS 3 Consolidated Financial Statements. Originally issued 1976, effective 1 Jan 1977. No longer effective. Superseded in 1989 by IAS 27 and IAS 28.	--
IAS 4 Depreciation Accounting. Withdrawn in 1999, replaced by IAS 16, 22, and 38, all of which were issued or revised in 1998.	--
IAS 5 Information to Be Disclosed in Financial Statements. Originally issued October 1976, effective 1 January 1997. No longer effective. Superseded by IAS 1 in 1997.	--
IAS 6 Accounting Responses to Changing Prices. Superseded by IAS 15.	--

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IAS 7 Cash Flow Statements	1992
IAS 8 Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies	Dec. 2003
IAS 9 Accounting for Research and Development Activities. Superseded by IAS 38 effective 1.7.99	--
IAS 10 Events After the Balance Sheet Date	1999
IAS 11 Construction Contracts	1993
IAS 12 Income Taxes	2000
IAS 13 Presentation of Current Assets and Current Liabilities. Superseded by IAS 1.	--
IAS 14 Segment Reporting	1997
IAS 15 Information Reflecting the Effects of Changing Prices	Withdrawn Dec. 2003
IAS 16 Property, Plant and Equipment	Dec. 2003
IAS 17 Leases	Dec. 2003
IAS 18 Revenue	1993
IAS 19 Employee Benefits	2002
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	1983
IAS 21 The Effects of Changes in Foreign Exchange Rates	Dec. 2003
IAS 22 Business Combinations	1998
IAS 23 Borrowing Costs	1993
IAS 24 Related Party Disclosures	Dec. 2003
IAS 25 Accounting for Investments. Superseded by IAS 39 & IAS 40 effective 2001.	--
IAS 26 Accounting and Reporting by Retirement Benefit Plans	1987
IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries	Dec. 2003
IAS 28 Accounting for Investments in Associates	Dec. 2003
IAS 29 Financial Reporting in Hyperinflationary Economies	1989

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IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions	1990
IAS 31 Financial Reporting of Interests In Joint Ventures	Dec. 2003
IAS 32 Financial Instruments: Disclosures and Presentation	Dec. 2003
IAS 33 Earnings Per Share	Dec. 2003
IAS 34 Interim Financial Reporting	1998
IAS 35 Discontinuing Operations	1998
IAS 36 Impairment of Assets	1998
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	1998
IAS 38 Intangible Assets	1997
IAS 39 Financial Instruments: Recognition and Measurement	Dec. 2003
IAS 40 Investment Property	Dec. 2003
IAS 41 Agriculture	2001

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ประวัติผู้เขียน

ชื่อ-สกุล	นายสุรกิจ คำวงศ์ปิน
วัน เดือน ปี เกิด	19 มกราคม 2521
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